

## **Policy Department External Policies**

# **THE RUSSIAN ECONOMIC PENETRATION IN MONTENEGRO**

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## **Abstract**

The volume of foreign direct investment (FDI) from Russia in Montenegro is the subject of much rumour and public debate in the young state. The study examines the importance of Russian direct investment, specifically in the corporate sector and in the real estate, and touches upon Russia's role as foreign trade partner and source of tourists for Montenegro. The exercise is complicated by the existence of multiple channels of investment for Russian capital, as well as by the lack of consistent and reliable statistical data. Based on available material, the authors note that while this Russian FDI penetration in the Montenegrin economy is certainly higher than in other former socialist countries, and very probably higher than shown by official statistics, it is not as high as often claimed by the press and public at large. Their conclusion therefore is that Russia does not have a dominant, let alone decisive, influence on the Montenegrin economy.

## Summary

- **Scope of the briefing.** The analysis focuses on the role of Russian foreign direct investment (FDI) in Montenegro, specifically in the corporate sector and in the real estate, but tackles also the importance of Russia as foreign trade partner and source of tourists for Montenegro. The real scope of Russian FDI penetration in the Montenegrin economy is difficult to assess because: (i) Russian investors invest in the country also via third countries or via local companies, (ii) of the lack of reliable statistical data; figures from various official sources are not always consistent, not to mention their inconsistency with unofficial sources.
- **Overall conclusion.** Russian FDI penetration in the Montenegrin economy is higher than in other former socialist countries and higher than one might conclude on the basis of official statistics, but not as high as often claimed by the press and public at large. Based on available data, one could hardly conclude that Russia has a very strong or even decisive influence in the Montenegrin economy. The main levers of Russian FDI in Montenegro are (i) the basic industry, with a dominant position of RusAl in the aluminium industry; which accounts for approximately half of the total goods exports of Montenegro; tourism industry (hotels), and (iii) acquisition of the real estate. Russian investors may further increase their presence in the Montenegrin economy by acquisition opportunities in the last stage of privatization (hotels, energy, Port of Bar etc.).
- **Main features of FDI in Montenegro:**
  - FDI inflows in Montenegro have strongly increased since 2004, in absolute terms as well as relative to other SEE countries. Inward FDI stock in Montenegro at the end of 2006 amounted to EUR 1,215 million and may overcome EUR 2 billion by the end of 2007. Increased inflows of FDI in Montenegro have brought about an extremely high importance of FDI for the economy, higher than in most, if any other SEE/CEE country.
  - There seem to be two major motivations of foreign investors in Montenegro: (i) the opportunities offered by privatization process, and (ii) (potentially) profitable investments in real estate. By far the predominant part of non-real estate FDI in Montenegro was realized via the privatization of state owned enterprises. Privatization process in Montenegro is in its final stage. The scope for attractive future foreign privatizations is, gradually reducing. Still, a number of more or less attractive enterprises remain to be privatized.
  - Probably the most outstanding feature of FDI in Montenegro in the recent years is the domination of FDI in real estate (35.2% of 2001-2006 inflows and as much as 53% of 2006 inflows). Increased real estate related FDI inflows are correlated with a very strong increase of real estate related FDI outflows. This indicates that foreign investors increasingly buy real estate as an investment and less as a holiday location.
- **Importance of Russian investors for FDI in Montenegro:**
  - The issue of heavy dependence of Montenegro on FDI from Russia is mostly the subject of press articles and of public rumours, less so but also present are political discussions on the subject outside and in particular within the country. Serious research papers on the subject do not exist. The Montenegrin government denies the domination of the Russian capital in the country, but in the opposition circles the issue appears here and then.
  - The importance of Russian investors is increasing; their share in total end-2006 inward FDI stock was 8.1% (compared to 2.8% at the end of 2005) what is

higher than in any other CEE or SEE country. Still, Russia is only the fifth most important investing country in Montenegro, after Hungary, United Kingdom, Switzerland and Austria. Leading position of Hungary is predominantly due to two large one-off investments (see Table 5) and not due to high interest of Hungarian investors in general. Russian investors may hide behind investors from other countries or behind the investments of local Montenegrin companies. FDI from countries, which are known as potential 'intermediary' countries of Russian FDI are low.

- The list of the most important FDI projects in Montenegro does not really support the notion that Russian investors' dominate the FDI scene in Montenegro, even if one takes into account possible 'indirect' investments via third countries. Among the most important FDI projects in Montenegro, which account for the vast majority of FDI stock in Montenegro, there are only few Russian projects: (i) the largest Russian FDI project in KAP (Aluminium factory and bauxite mine in Podgorica), (ii) Bauxite mine in Nikšič, (iii) two investments in hotels by two different Russian-Montenegro companies.
- Russian investors are mostly interested in extractive/basic industries and tourism (hotels). They are not present in the Montenegrin banking sector at all. The most outstanding is the importance of KAP - owned by Oleg Deripaska's RusAl - for the Montenegrin economy. KAP accounts for approximately half of Montenegro's exports. Russian Belon Group, owned again by Oleg Deripaska, also wanted to buy the coal mine and power plant Plevlja, but their privatization was postponed earlier this year.
- The remaining Montenegrin enterprises to be privatized are of interest for Russian investors. They show interest in particular for tourism. They also expressed interest for the Port of Bar.
- A good deal of statements about high economic penetration of Russia in Montenegro is based on Russians' real estate purchases in the country. Real estate market has gone through a big expansion since 2005. In practice, the notion of selling of the Montenegrin real estate is usually related to the Russian buyers. The official data hardly confirm this (Russian investors possess 0.3651% of all foreign-owned land and 9.1% of all foreign owned flats. About 80% of foreign-owned real estate is owned by Serbian residents), but the available official data may not contain a considerable part of private deals when foreigners buy real estate. In contrast to buyers from EU, Russian investors do not hesitate to buy land, which is not covered by an 'urbanization plan' and they are used to bring money in cash. On the other hand, buyers of Montenegrin real estate are increasingly coming from other countries as well.
- **Montenegro's foreign trade with Russia** is very small and accounts for less than 1% of Montenegrin foreign trade. The importance of Russia for Montenegrin foreign trade is more reflected in the dominant importance of RusAl's KAP for Montenegro's exports. On the other hand, **Russian tourists** are extremely important for Montenegrin tourism. They account for over 17% of all non-Serbian foreign tourists, what makes them far the most frequent.

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## **1. Introduction**

Specification of this Briefing Paper (EP/EXPO/B/AFET/FWC/2006-10/Lot1/14, Annex II) says that 'The Briefing Paper should analyse, against the legal provisions in force, the privatisation process in Montenegro, provide an overview of the foreign investment by country of origin and evaluate their possible impact on the Montenegrin system'. Along these lines the analysis focuses on the role of Russian foreign direct investment (FDI) in Montenegro, specifically in the corporate sector and in the real estate, but tackles also the importance of Russia as foreign trade partner and source of tourists for Montenegro. The overall conclusion is Russian FDI penetration in the Montenegrin economy is higher than in other former socialist countries and higher than one might conclude on the basis of official statistics, but not as high as often claimed by the press and public at large. Based on available data, one could hardly conclude that Russia has a very strong or even decisive influence in the Montenegrin economy. The main levers of Russian FDI in Montenegro are (i) the basic industry, with a dominant position of RusAl in the aluminium industry; which accounts for approximately half of the total goods exports of Montenegro; tourism industry (hotels), and (iii) acquisition of the real estate. Russian investors may further increase their presence in the Montenegrin economy by acquisition opportunities in the last stage of privatization (hotels, energy, Port of Bar etc.).

The real scope of Russian FDI penetration in the Montenegrin economy is difficult to assess because: (i) Russian investors invest in the country also via third countries or via local companies, (ii) of the lack of reliable statistical data; figures from various official sources (for instance, central bank, Monstat, MIPA) are not always consistent, not to mention their inconsistency with unofficial sources.

Briefing begins with a short overview of Russian FDI in the former socialist countries, continues with the survey of the main features of FDI in Montenegro, to concentrate on the importance of Russian FDI for the country. It ends by briefly tackling the importance of Russia for Montenegrin foreign trade and tourism.

## **2. Russian FDI in Central and Eastern (CEE), and South-Eastern European (SEE) countries**

Total Russian outward FDI stock at end 2005 was EUR 116,902 million (WIIW data base, Hunya, 2007). It is very difficult to obtain accurate data on the destinations of Russian FDI. Much of the investment is made indirectly through third economies (such as the Bahamas, Cyprus, Panama, Singapore, the British Virgin Islands, Luxembourg, the Netherlands, Austria, Ireland and the United States). Nor it is rare for a Russian investor to set up a company in a host economy and for this firm to establish another in the same economy, so covering the ultimate country of residence. According to Weiner (2007), the main destinations of Russian outward FDI in 1995–1999 were the United States (USD 1,544.2 million; 23.5%), Poland (USD 1,112.2; 16.6%) and Germany (USD 1,053.9; 15.7%). From 1994 to 2001, the Commonwealth of Independent States (CIS) played little role in Russian outward FDI, with shares under 10% in 1994, 1996 and 2000. There was a peak (23.5%) in 1999, but in 2002 and 2003, CIS countries took 4 of the top 10 places for Russian FDI abroad.

Table 1 presents the stock of Russian FDI in CEE and SEE countries. Poland, Lithuania, Latvia and Estonia are the main destinations for Russian FDI in absolute terms. In relative terms Russian investors are the most important in Montenegro (8.1% of total 2006 inward FDI stock in Montenegro) and the Baltic States (Latvia 6.6%, Lithuania 6.3% and Estonia 2.3%). Relative importance of Russian investors in other CEE and SEE countries is more or less negligible. The other side of the coin is that CEE and SEE countries are not really the main destination of Russian investors; only approximately EUR 2 billion out of EUR 117 billion of Russian outward FDI stock at end 2005 was located in CEE and SEE countries. The limitation of this conclusion is that we do not know the amount of Russian FDI coming in CEE and SEE countries via other countries and/or via setting up local companies which then make the investment.

**TABLE 1: Russian FDI in CEE and SEE countries; end year stock**

|   | In million<br>EUR | % of total inward FDI<br>stock in the country | Year of<br>reporting |
|---|-------------------|---|----------------------|
| <b>CENTRAL AND EASTERN EUROPEAN COUNTRIES</b> |                   |   |                      |
| Czech Republic                                | 45.8              | 0.1   | 2005                 |
| Hungary                                       | -5.2              | 0.0   | 2005                 |
| Poland  | 538.9             | 0.7   | 2005                 |
| Slovakia                                      | 3.4               | 0.0   | 2006                 |
| Slovenia                                      | -3.4              | 0.0   | 2005                 |
| Estonia                                       | 280.1             | 2.3   | 2006                 |
| Latvia  | 378.8             | 6.6   | 2006                 |
| Lithuania                                     | 522.3             | 6.3   | 2006                 |
| Bulgaria                                      | 85.6              | 0.9   | 2005                 |
| Romania                                       | n.a.*             | 0.0   | 2005                 |
| <b>SOUTH-EASTERN EUROPEAN COUNTRIES</b>       |                   |   |                      |
| Albania                                       | n.a.*             | n.a.  | 2004                 |
| Bosnia and Herzegovina                        | 0.0               | 0.0   | 2005                 |
| Croatia                                       | 21.3              | 0.1   | 2006                 |
| Macedonia                                     | 1.3               | 0.1   | 2005                 |
| <b>Montenegro</b>                             | <b>98.3</b>       | <b>8.1</b>                                    | <b>2006</b>          |
| Serbia  | 35.2              | 0.5   | 2006                 |
| <b>TOTAL</b>                                  | <b>2,002.4</b>    |   |                      |

Source: Hunya, 2007 (WIIW database); \* Not reported separately. Listed among 'other' countries.

The biggest Russian investors in the region are natural resource-based firms, with companies from the oil and gas sector (Gazprom, Lukoil, Itera, Yukos and Rosneft) being dominant, although ferrous and non-ferrous metals are also represented, by RusAl, Norilsk Nickel, Severstal and Mechel. The most active non-natural resource-based firm is OMZ (Uralsmash-Izhora group). The motivation in the oil and gas sector is expansion of the exploration and production base through investments in the Caspian Sea region, Iraq, Libya, Sudan, Columbia, Egypt and Kazakhstan (upstream activities). A growing number of investors are also attracted to refineries and distribution infrastructure (sales outlets) in the CEE region, the CIS and the United States, seeking to be near their end-markets and obtain more profit through products with greater added value – refining capacity in host markets can eliminate transportation costs for petroleum products. This allows Russian oil companies to control the entire value chain. Investment in logistic units, oil pipelines and seaports in the EU, the CIS and the United States secures deliveries and minimizes costs. Good examples of this are Yukos' acquisitions in Lithuania and Slovakia.



Former socialist countries often feel negative about Russia obtaining capital stakes in their companies. In the CIS countries, Russian FDI has had a stronger influence and met lower resistance than it has in the CEE and SEE countries, but some changes are obvious. The reasons for CEE resistance to Russian FDI are the following: (i) memories of Soviet politics in the past, in particular in the Baltic States and Poland; (ii) fear of losing control over industries of strategic importance or over the commanding heights of the economy; (iii) lack of transparency, i.e. there is suspicion when the company is not transparent or the investors' real intentions are unclear, or the acquiring company intends to buy indirectly, through other affiliated companies, for example offshore firms; (iv) host countries also look uncomfortable at Russian investors that often do not follow Western business standards; (v) CEE countries might be suspicious that Russian outward investors, not immune to bribery, corruption and other illegal procedures at home, may apply these procedures in the host economies as well

### 3. FDI in Montenegro

#### 3.1. Very high and increasing importance of FDI for the Montenegrin economy

FDI inflows in Montenegro have strongly increased since 2004, in absolute terms as well as relative to other SEE countries. In the whole 2001-2004 period the inflows totalled EUR 176 million, to increase to EUR 393 million in 2005 and to EUR 644 million in 2006. The forecast for 2007 is EUR 600 million by WIIW (Hunya, 2007) and EUR 650 million by Montenegrin Investment Promotion Agency (MIPA). In the first half of 2007, FDI inflows were in the amount of EUR 493.8 million, i.e. by 164.9% more than in the respective period of 2006 (Centralna Banka Crne Gore, 2007c). Actual FDI inflows in 2007 may, thus, be higher than those forecasted.<sup>1</sup> This trend increased the share of Montenegro in total FDI inflows to SEE countries from less than 2% in 2004 to 10.3% in 2005 and 8.2% in 2006. As a result, inward FDI stock in Montenegro at the end of 2006 amounted to EUR 1,215 million and may overcome EUR 2 billion by the end of 2007.

**TABLE 2: FDI in Montenegro; main indicators for 2001-2006**

|  | 2001 | 2001 | 2003 | 2004 | 2005  | 2006  |
|--|------|------|------|------|-------|-------|
| FDI inflows, EUR million                       | 5    | 76   | 44   | 53   | 393   | 644   |
| <i>% share in SEE* FDI inflows</i>             | 0.2  | 3.3  | 1.2  | 1.9  | 10.3  | 8.2   |
| Inward FDI stock, EUR million                  | 5    | 81   | 125  | 178  | 570   | 1,215 |
| <i>% share in SEE inward FDI stock</i>         | 0.1  | 0.8  | 0.9  | 1.0  | 2.5   | 3.3   |
| FDI inflow per capita in Montenegro, EUR       | 8    | 124  | 71   | 85   | 630   | 1,031 |
| <i>FDI inflow per capita in SEE, EUR</i>       | 119  | 106  | 168  | 128  | 177   | 365   |
| Inward FDI stock per capita in Montenegro, EUR | 8    | 131  | 201  | 285  | 915   | 1,943 |
| <i>Inward FDI stock per capita in SEE, EUR</i> | 364  | 481  | 626  | 820  | 1,079 | 1,693 |
| FDI inflows as % of GFCF** in Montenegro       | 2.1  | 38.4 | 21.8 | 18.4 | 127.1 | 200.3 |
| <i>FDI inflows as % of GFCF in SEE</i>         | 29.1 | 20.3 | 26.3 | 15.9 | 22.5  | 42.3  |
| Inward FDI stock as % of GDP*** in Montenegro  | 0.4  | 6.2  | 9.0  | 11.3 | 33.7  | 69.1  |
| <i>Inward FDI stock as % of GDP in SEE</i>     | 15.3 | 17.9 | 21.8 | 26.1 | 31.7  | 44.0  |

Source: Hunya, 2007 (WIIW database); \* SEE (Southeast Europe): Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Serbia; \*\* GFCF: Gross Fixed Capital Formation; \*\*\* GDP: Gross Domestic Product.

<sup>1</sup> Net FDI inflows (Inflows of FDI minus outflows of FDI) in the first half of 2007 were EUR 290.3 million, compared to only EUR 159.9 million on the first half of 2006 (Centralna Banka Crne Gore 2007c).

Increased inflows of FDI in Montenegro have brought about an extremely high importance of FDI for Montenegrin economy, which is higher than in most other SEE and CEE countries. In Montenegro, FDI inflows as a percentage of GFCF amounted to 200.3% in 2006 (This means that FDI inflows are twice as high as total GFCF in the country.), while the average for CEE countries was 24.9% and for SEE countries 42.3%. Apart from Montenegro, the highest still much lower ratio of 76.7% was in Serbia. In Montenegro, FDI stock as a percentage of GDP was 69.1% in 2006, while the average for CEE countries was 42.8% and for SEE countries 44.0%. Of all the analysed countries, only Estonia and Hungary have higher values.

### 3.2. Structural characteristics of FDI in Montenegro – privatization deals and real estate

There seem to be two major motivations of foreign investors in Montenegro; one is the opportunities offered by Montenegro privatization process, and the second is (potentially) profitable investments in real estate. Survey of the largest FDI projects in Montenegro (see Table 5 below) shows that by far the predominant part of non-real estate FDI in Montenegro was realized via the privatization of state owned enterprises. Notable exceptions of greenfield FDI are the investment of Norwegian Telenor in telecommunications and of Austrian Hypo Alpe Adria Bank.

Privatization process in Montenegro is in its final stage. Private ownership in most sectors prevails, i.e. telecommunications, capital market, services, oil industry and distribution, and agriculture are already completely privately owned, private ownership in the banking sector is 92% (only one more bank is in state ownership), and the tourism sector is also mostly privatized (26 hotels have been privatized by now). The scope for attractive future foreign privatizations is, thus, gradually reducing. Still, a number of more or less attractive enterprises remain to be privatized, like thermo-power plant and coal mine in Plevlja, Port of Bar, hotels, manufacturing companies, companies in the field of transport etc. (see the list of future privatizations announced by the Montenegrin government in Appendix 3).

**TABLE 3: Distribution of FDI inflows in Montenegro by sectors in 2001-2006; in EUR million**

|              | Production activities<br>(1) | Service activities<br>(2) | Financial organizations<br>(3) | Subtotal<br>(1)+(2)+(3) | Real estate  | Total          |
|--------------|------------------------------|---------------------------|--------------------------------|-------------------------|--------------|----------------|
| 2001         | -0.4                         | 3.3                       | 1.7                            | 4.7                     | -            | 4.7            |
| 2002         | 3.4                          | 69.1                      | 3.8                            | 76.4                    | -            | 76.4           |
| 2003         | 2.2                          | 24.2                      | 12.1                           | 38.5                    | 5.3          | 43.8           |
| 2004         | 2.3                          | 37.7                      | 1.8                            | 41.8                    | 10.9         | 52.7           |
| 2005         | 68.6                         | 193.7                     | 50.2                           | 312.5                   | 70.3         | 382.8          |
| 2006         | n.a.                         | n.a.                      | n.a.                           | 306.3                   | 337.9        | 644.3          |
| <b>TOTAL</b> |                              |                           |                                | <b>780.2</b>            | <b>424.4</b> | <b>1,204.6</b> |

*Source:* For 2001-2005 Ministry of International Economic relations and European Integration, 2006 (based on Central Bank of Montenegro, 2006), for 2006 Central Bank of Montenegro.

Sectoral distribution of FDI in Montenegro is characterized by FDI in real estate (35.2% of 2001-2006 inflows and as much as 53% of 2006 inflows) and in service activities where the tourism activities dominate. The rest are investments in banking, basic industry and manufacturing. Based on the MIPA data base of 37 main foreign investors in Montenegro (accounting for over EUR 600 million of FDI, and not taking

into account investments of natural persons in real estate), the sectoral structure of FDI (by primary activity of major investors) as of November 2006 is the following: 36% in financial sector, 22% in tourism, 11% in industry, 6% in transport, 5% in other services, 2% in agro industry and 18% in other.

Probably the most outstanding feature of FDI in Montenegro in the recent years is the domination of FDI in real estate. Tremendous increase of total FDI inflows in 2006 has been predominantly due to increased purchasing of real estate by foreigners. Non-real estate FDI inflows have not really increased in 2006. The most attractive real estate locations for foreign investors are the coastal area, Podgorica, and tourist resorts in the North of the country. The main reasons for increased interest of foreign investors for real estate are claimed to be simple regulatory framework, potential for further increase of real estate market, increasing prices of real estate and therefore possibility for profitable investments, plus growth of the tourist industry in Montenegro (Denar & svet nepremičnin, 2007).

Increased real estate related FDI inflows are correlated with a very strong increase of real estate related FDI outflows. If real estate related FDI inflows increased from EUR 70.3 million in 2005, to EUR 337.9 million in 2006 and to EUR 256.8 million in the first half of 2007, real estate related outflows increased from only EUR 12.4 million in 2005, to EUR 81 million in 2006 and to EUR 156.4 million in the first half of 2007. This indicates that we increasingly witness the situation when foreign investors buy real estate as an investment and less as a holiday location (Centralna Banka Crne Gore, 2007b, 2007c). Thus, net real estate related FDI inflows in Montenegro in 2006 were EUR 256.9 million, while in the first half of 2007 EUR 100.4 million. The result is that real estate related FDI inflows in Montenegro in 2007 are still in increase but net inflows in 2007 will probably not match those of 2006.

#### **4. Importance of Russian investors for FDI in Montenegro**

The issue of heavy dependence of Montenegro on FDI from Russia is tackled and claimed at various levels. Mostly it is the subject of press articles and of public rumours and discussions in Montenegro, less so but also present are political discussions on the subject outside and in particular within the country. Serious research papers on the subject do not exist. Montenegrin government firmly denies the domination of the Russian capital in the country, but in the opposition circles the issue appear here and then. Let us quote some typical statements:

Typical press articles of this kind are the two of Nicholas Wood in the New York Times and the International Herald Tribune Europe (Wood, 2006a, 2006b)<sup>2</sup>, and of Beth Kampschorr in the Christian Science Monitor (Kampschorr, 2006). Wood (2006a, 2006b) speaks about enormous Russian influence on the Montenegrin economy, but then only quotes three FDI projects (KAP, Željezara Nikšić and Hotel Splendid; see Table 5 below). He says, 'in the past two to three years, hundreds of Russians have flocked to Montenegro to buy large stretches of land along the increasing fashionable Adriatic coast and to build resorts like Hotel Splendid. Farther inland they have bought the majority of shares in the country's industrial sector. Their money has helped to fuel a real estate boom and has provided much-needed cash to

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<sup>2</sup> The two articles have different titles but the contents is 100% the same.

ailing factories'. He also quotes Russia's president Vladimir V. Putin, who 'recently valued Russian investments in Montenegro at about USS 2 billion.' In a similar way, Kempsschor (2006) reports, 'companies, hotels, land, private houses – it seems that as everything is on the block, mostly bought by people and investors from central Europe, the Britain and Ireland, though to hear the local gossip, it's shadowy Russian money launderers who are buying up most of the country.' Russian FDI in Montenegro is supposedly much higher than official figures say, because 'government officials say many ventures are channelled through companies in third countries..... The concerns about Russian investors spring from the secretive nature of many deals, questions about the origins of their financing and the large sums of money involved. Transactions are frequently carried out with cash..... The question is who knows what is going on, whose funds they are' (Wood, 2006a, 2006b). On the other hand, typical reaction of the Montenegrin authorities to such claims would be that Russian are only one of the investors in Montenegro, which are far to prevail, except may be in real estate, and that 'as long as it is a fair market process (based on international tenders monitors by international consultants), driven by supply and demand and respect of the existing legislation, investors from any country will not represent danger for economic development of Montenegro' (MIPA, 2007).

**TABLE 4: Montenegro: Inward FDI stock by home countries**

|                         | Amount, in EUR million |              |              |                | Distribution, in % of total |              |              |              |
|-------------------------|------------------------|--------------|--------------|----------------|-----------------------------|--------------|--------------|--------------|
|                         | 2003                   | 2004         | 2005         | 2006           | 2003                        | 2004         | 2005         | 2006         |
| Hungary                 | .                      | 2.4          | 150.1        | 268.1          | .                           | 1.4          | 26.3         | 22.1         |
| United Kingdom          | 35.6                   | 36.3         | 72.4         | 137.6          | 28.5                        | 20.4         | 12.7         | 11.3         |
| Switzerland             | 8.8                    | 15.4         | 30.0         | 118.4          | 7.0                         | 8.7          | 5.3          | 9.8          |
| Austria                 | 3.6                    | 5.9          | 79.3         | 109.2          | 2.9                         | 3.3          | 13.9         | 9.0          |
| <b>Russia</b>           | <b>1.1</b>             | <b>1.7</b>   | <b>15.8</b>  | <b>98.3</b>    | <b>0.9</b>                  | <b>1.0</b>   | <b>2.8</b>   | <b>8.1</b>   |
| Germany                 | 28.1                   | 35.9         | 41.0         | 67.9           | 22.5                        | 20.2         | 7.2          | 5.6          |
| Slovenia                | 18.3                   | 32.4         | 55.3         | 65.2           | 14.7                        | 18.2         | 9.7          | 5.4          |
| Serbia                  | 1.1                    | 3.0          | 10.3         | 42.1           | 0.9                         | 1.7          | 1.8          | 3.5          |
| Latvia                  | 0.2                    | 3.9          | 5.8          | 29.7           | 0.2                         | 2.2          | 1.0          | 2.4          |
| United States           | 2.0                    | 3.4          | 8.0          | 27.9           | 1.6                         | 1.9          | 1.4          | 2.3          |
| Cyprus                  | 1.9                    | 3.9          | 7.4          | 26.0           | 1.5                         | 2.2          | 1.3          | 2.1          |
| Ireland                 | .                      | 0.2          | 4.1          | 21.1           | .                           | 0.1          | 0.7          | 1.7          |
| Lithuania               | .                      | 0.3          | 0.7          | 18.4           | .                           | 0.2          | 0.1          | 1.5          |
| France                  | 0.0                    | 0.3          | 12.0         | 18.2           | 0.0                         | 0.1          | 2.1          | 1.5          |
| Greece                  | 14.9                   | 15.1         | 15.2         | 15.8           | 12.0                        | 8.5          | 2.7          | 1.3          |
| Denmark                 | 1.9                    | 1.9          | 2.7          | 13.0           | 1.5                         | 1.1          | 0.5          | 1.1          |
| Luxembourg              | 0.7                    | 0.7          | 2.1          | 12.7           | 0.6                         | 0.4          | 0.4          | 1.0          |
| Italy                   | -0.3                   | -0.1         | 6.3          | 12.4           | -0.3                        | 0.0          | 1.1          | 1.0          |
| Liechtenstein           | .                      | 0.2          | 1.3          | 12.2           | .                           | 0.1          | 0.2          | 1.0          |
| Estonia                 | 0.3                    | 2.1          | 3.8          | 8.7            | 0.2                         | 1.2          | 0.7          | 0.7          |
| Bosnia and Herzegovina  | 1.3                    | 1.5          | 6.0          | 7.1            | 1.1                         | 0.8          | 1.0          | 0.6          |
| Croatia                 | 0.1                    | 0.2          | 0.9          | 6.5            | 0.1                         | 0.1          | 0.2          | 0.5          |
| Netherlands             | 1.1                    | 1.1          | 1.3          | 5.6            | 0.9                         | 0.6          | 0.2          | 0.5          |
| Japan                   | 0.7                    | 1.8          | 4.2          | 4.2            | 0.5                         | 1.0          | 0.7          | 0.3          |
| Virgin Islands, British | 0.2                    | 0.9          | 2.0          | 3.9            | 0.2                         | 0.5          | 0.3          | 0.3          |
| Other                   | 3.3                    | 7.2          | 32.5         | 64.5           | 2.7                         | 4.1          | 5.7          | 5.3          |
| <b>TOTAL</b>            | <b>124.9</b>           | <b>177.5</b> | <b>570.3</b> | <b>1,214.6</b> | <b>100.0</b>                | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |
| Of which EU-27          | 106.3                  | 142.3        | 459.5        | 829.6          | 85.2                        | 80.1         | 80.6         | 68.2         |

Source: Hunya, 2007 (WIIW database; based on Central Bank of Montenegro data).

What do the figures, official and those behind, say about the real level of Russian FDI penetration in the Montenegrin economy? Fast growing inflows and importance of FDI for the Montenegrin economy is accompanied by an increasing importance of the

Russian investors. The share of Russian investors in total inward FDI stock at the end of 2006 was 8.1% (compared to 2.8% at the end of 2005) what is higher than in any other CEE or SEE country. Still, how important Russian investors really are? The answer is not a straightforward one and should be looked at from various angles.

In spite of its 8.1% share in Montenegrin inward FDI stock, Russia is only the fifth most important investing country in Montenegro, far behind Hungary (22.1%) and something less behind United Kingdom (11.3%), Switzerland (9.8%) and Austria (9.0%). All in all, FDI scene in Montenegro is dominated by EU investors, accompanied by investors from Switzerland and Russia. Russian investors, of course, may hide behind investors from other countries or behind the investments of local Montenegrin companies. FDI from countries, which are known as countries being potential 'intermediary' of Russian FDI are not really high. Virgin Island, Netherlands, Liechtenstein, Luxembourg, Ireland, Cyprus and United States only have relatively small FDI in Montenegro.

#### **4.1. Russian FDI in the Montenegrin corporate sector**

The list of the most important FDI projects in Montenegro (see Table 5)<sup>3</sup> gives additional insight into the importance of Russian investors. It does not really support the notion that Russian investors dominate FDI scene in Montenegro, even if one takes into account possible 'indirect' investments via third countries. Among the most important FDI projects in Montenegro, which account for the vast majority of FDI stock in Montenegro, there are only few Russian projects: (i) the largest Russian FDI project in KAP (Aluminium factory and bauxite mine in Podgorica), (ii) Bauxite mine in Nikšić, (iii) two investments in hotels by two different Russian-Montenegro companies. Apart from that, Russian investor Barkli SK bought Hotel Otrant for EUR 2.5 million. Unofficial sources also say that Russian investors bought hotels 4. juli and As in Petrovac (Slobodna Dalmacija 2007). In 2006, there have been a number of acquisitions of hotels (Hotel Galeb for EUR 5.75 million, Hotel Vile Oliva for EUR 3.5 million) and other companies (Utip Crna Gora by EUR 4.6 million, The Jadran AD Perast for EUR 5.2 million) by Montenegrin firms where Russian investors may be involved. Hotel Avala, according to official information privatized and refurbished by UK based Beppler & Jacobson, is said to be in Russian-Montenegro ownership (Slobodna Dalmacija 2007). Beppler & Jacobson also privatized Hotel Bianca. According to Wood (2006), UK Midland Resources, which is the owner of Željezara Nikšić is also Russian-owned but registered in UK. German Strabag which acquired Public Enterprise Crnagoraput is also controlled by the Russian capital.

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<sup>3</sup> The data on the largest FDI projects in Montenegro are compiled from various official (Ministry of International Economic Relations and European Integration, MIPA) and unofficial sources (newspapers, journals etc.). It is often that data on the same project from different sources differ, especially as far as the amount of investment is concerned. Nevertheless, to the best of our knowledge Table 5 contain the vast majority of relevant FDI projects in Montenegro.

**TABLE 5: The Largest FDI Projects in Montenegro by the end of 2006, in EUR million**

| Company   | Sector                             | Investor                       | Home country of foreign investor | Type of investment | Purchasing price/Initial investment | Additional investment | Amount, in EUR mill.* |
|---|------------------------------------|--------------------------------|----------------------------------|--------------------|-------------------------------------|-----------------------|-----------------------|
| <b>TELECOMMUNICATIONS</b>   |                                    |                                |                                  |                    |                                     |                       |                       |
| Telekom Crne Gore   | Telecommunications                 | Matav RT                       | Hungary                          | Privatization      | 136                                 | 67.3 (in 5 years)     |                       |
| Pro Monte   | Telecommunications                 | Telenor ASA                    | Norway                           | Greenfield         | 116                                 |                       |                       |
| <b>EXTRACTIVE/BASIC INDUSTRY</b>  |                                    |                                |                                  |                    |                                     |                       |                       |
| Jugopetrol SC   | Petroleum, oil and oil derivatives | Hellenic Petroleum             | Greece                           | Privatization      | 65                                  | 35                    |                       |
| KAP – Kombinat aluminijuma Podgorica (Aluminium factory) and Rudnici boksita (Bauxite mine) Podgorica | Aluminium processing               | RusAl                          | Russia                           | Privatization      | 57.8                                | 59                    |                       |
| Rudnik boksita (Bauxite Mine) Nikšić  | Mining                             | Salamon enterprises            | Russia                           | Privatization      |                                     |                       | 10.0                  |
| Željezara (Steel mill) Nikšić   | Steel making                       | MN Specialty/Midland Resources | United Kingdom                   | Privatization      | 5.2                                 | 117 (in 5 years)      |                       |
| <b>BANKING/FINANCIAL SERVICES</b>   |                                    |                                |                                  |                    |                                     |                       |                       |
| Crnogorska komercijalna banka (CKB)   | Financial services                 | OTP                            | Hungary                          | Privatization      | 105                                 |                       |                       |
| Hypo Alpe Adria Bank Montenegro   | Banking                            | Hypo Group                     | Austria                          | Greenfield         | 48.0                                |                       |                       |
| Podgorička banka  | Banking                            | Societe Generale               | France                           | Privatization      | 14.2                                | 40                    |                       |
| Montenegro banka  | Financial services                 | Nova Ljubljanska Banka         | Slovenia                         | Privatization      | 11.1                                | 12.8                  |                       |
| LB Leasing Podgorica  | Financial Services                 | LB Leasing Ljubljana           | Slovenia                         | Greenfield         | 8.1                                 |                       |                       |
| Opportunity Bank  | Financial Services                 | Opportunity Bank               | Belgium                          |                    |                                     |                       | 10                    |
| <b>MANUFACTURING</b>  |                                    |                                |                                  |                    |                                     |                       |                       |
| Nikšička pivara (Brewery Trebjesa)  | Beer                               | Interbrew                      | Belgium                          | Privatization      | 20.5                                |                       |                       |
| Daido Metal Kotor   | Ball bearings production           | Daido Metal                    | Japan                            | Privatization      | 1                                   | 9                     |                       |
| Rolling Plant for Cold Rolled Wires, Nikšić   | Metal industry                     | Technosteel                    | Switzerland                      | Privatization      |                                     |                       | 5.35                  |
| <b>TOURISM</b>  |                                    |                                |                                  |                    |                                     |                       |                       |
| Hotel Maestral Miločer  | Tourism, catering                  | HIT Nova Gorica                | Slovenia                         | Privatization      | 5                                   | 22.1                  |                       |
| HTO Budvanska rivijera, Hotel Avala   | Tourism, catering                  | Beppler & Jacobson             | United Kingdom                   | Privatization      | 3.2                                 | 10                    |                       |
| Hotel Bianca  | Tourism, catering                  | Beppler & Jacobson             | United Kingdom                   | Privatization      | 1.6                                 | 9                     |                       |
| Hotel Panorama Bečići   | Tourism                            | Springer & Sons                | Austria                          | Privatization      |                                     |                       | 7.5                   |
| HTP Budvanska rivijera (Hotels Blue star, Montenegro, Splendid)                                       | Tourism, catering                  | Montenegro Stars Hotels Group  | Russia-Montenegro                | Privatization      |                                     |                       | 50                    |
| Hotel Grand Lido and Apartments Lido, Ulcinj  | Tourism, catering                  | Capital estate                 | Russia-Montenegro                | Privatization      | 10.8                                | 37 (in 3 years)       |                       |
| <b>OTHER</b>  |                                    |                                |                                  |                    |                                     |                       |                       |
| Public enterprise Crnagoraput   |                                    | Strabag AG                     | Germany                          | Privatization      | 8.4                                 | 5.7 (in 4 years)      |                       |

Source: Ministry for International Economic Relations and European Integration, 2006 (based on Agency for restructuring and foreign investments of Montenegro 2005), MIPA and various other official and unofficial sources; \* The amount includes calculated sales price with the system of investments signed in contracts.

In direct Russian ownership.

In indirect Russian ownership.

The list of the largest FDI projects in Montenegro indicates that Russian investors are mostly interested in extractive/basic industries and tourism (hotels). The most outstanding is the importance of KAP - owned by Oleg Deripaska's RusAl - for the Montenegrin economy. In April 2005, RusAl won a tender for a 65.44 per cent stake in Kombinat Aluminijuma Podgorica (or KAP), an aluminium producer which is the main industrial capacity in the country. The shares in RusAl were then bought up in July 2005 by Basic Element, its management company. The Montenegrin government announced that the stake had cost EUR 48.5 million, and the new owner would have to invest EUR 55 million in modernizing the company and EUR 20 million on environmental protection in Montenegro (RIA Novosti 2005) (Weiner, 2006). Wood (2006a) claims that RusAl was the only company with which the government negotiated the sale of KAP and that the government classified the contract as a business secret.

According to the Moscow Times (2005), KAP accounts for half of Montenegro's industrial output and 80% of its exports. This may be exaggerated – the share of aluminium and products of aluminium in total exports of Montenegro accounts for 41.8% in 2006 (Centralna Banka Crne Gore, 2007b) and for 52.6% in the first half of 2007 (Centralna Banka Crne Gore 2007c) – still, there is not doubt that KAP is of major importance for the Montenegrin economy.

In the beginning of 2007, the Montenegrin government was also negotiating the sale of thermo-plant and coal mine in Plevlja with Russian Belon Group (MIPA, 2007), also owned by Oleg Deripaska (Slobodna Dalmacija 2007). The project was not realized because no consensus has been achieved within the ruling coalition. The government decided to postpone the privatization of Plevlja. Potential acquisition of Plevlja by Belon Group would really concentrate very big economic power in the hands of the Russian corporation. This motivation of Belon group for the acquisition seems to be linked to KAP, i.e. for its normal functioning KAP would need to have a reliable source of electric energy. The alternative possibility for RusAl would be to build a new power plant.

Russian investors are not present in the Montenegrin banking sector at all. Ten banks work in Montenegro today and majority of them has either whole or majority foreign capital. After the privatization of Podgorička Banka at the end of 2005, state capital almost fully disappeared from the banking sector (Ministry for International economic Relations and European Integration, 2006; see also Appendix 1).

The remaining Montenegrin enterprises to be privatized are certainly of interest for Russian investors. They show interest in particular for tourism. They also expressed interest for the Port of Bar and, as already mentioned, they were eager to buy power plant and coal mine Plevlja. Norwegian investors show a great interest for the energy sector, for nautical tourism, as well as for the Port of Bar. Greek and Spanish investors also show interest for the Port of Bar, while Irish investors indicate interest for the tourism sector.

#### **4.2. Russian FDI in the Montenegrin real estate**

A good deal of statements about high economic penetration of Russia in Montenegro is based on Russians' real estate purchases in the country. Again, the notion has been

strongly fuelled by press articles. For instance, 'this summer worries about Russian investors are the talk in many Montenegrin bars and cafes' (Kempsschorr, 2006), or 'Irish and British clients outnumber Russians, real estate agents here say, but it is the Russian – many working with Montenegrin business partners – who have bought the largest and most valuable assets' (Wood, 2006a, 2006b). Still, as Justin Faiz, director of Pluto Capital Ltd., a British-Montenegrin development fund say 'Every time we're about to close a deal, i.e. buy a plot of land, it's like. You've gotta sign today, because a Russian is coming with a suitcase of cash, and is going to buy it if you don't sign... Of course the Russian is never around the corner' (Kempsschorr 2006). The question, therefore, is what is the truth behind the statements, articles and rumours about the Russian 'invasion' on Montenegrin real estate.

The fact is that real estate related FDI is an outstanding phenomenon in Montenegro. Real estate market has gone through a big expansion since 2005. The extent of real estate sales to foreigners in Montenegro is apparently so high that public opinion and press talk about 'selling off' the Montenegrin land. Montenegrin officials strictly deny such a notion. In practice, the notion of selling of the Montenegrin real estate is usually related to the Russian buyers. The data hardly confirm this, but the available official data may not content a considerable part of private deals when foreigners buy real estate. As reported by some sources, in contrast to buyers from EU, Russian investors do not hesitate to buy land, which is not covered by an 'urbanization plan' (Slobodna Dalmacija 2007) and they are used to bring money in cash. On the other hand, it is noticeable that buyers of Montenegrin real estate are increasingly coming from other countries as well. According to Slobodna Dalmacija (2007), Russians were the first which discovered the beauties of Montenegro and increased the prices of real estate, but Montenegrin real estate agencies claim that 'there is big fallacy in Montenegro and abroad by believing that Russians are the main clients not asking for a price, since lately they are loosing the dominant position which is increasingly taken over by Scandinavians, English and Irish'.

What do the data say? Of overall FDI inflows from Russia to Montenegro in 2005 90% (EUR 12.6 million) related to real estate acquisition, in 2006 the corresponding share was 80.5% (EUR 66.4 million) (Centralna Banka Crne Gore). According to the latest data (Mitrović, 2007), foreigners acquired altogether 19,209.7 hectares of land or 1.393% of the total area of Montenegro, and 1,529,001 m<sup>2</sup> of flats, representing 8.499% of all flats in Montenegro. Foreign ownership is dominated by owners from Serbia - 85.0% of all land and 74.0% of all flats in foreign ownership - what is, of course, the inherited situation. The inheritance of once common state Yugoslavia is obvious also in the case of Bosnia and Herzegovina and Croatia, and partly Slovenia and Macedonia. In the case of land, Serbia is followed by Bosnia and Herzegovina (9.6%) and Croatia (3.0%), Russia being on the fourth place with 0.3651% (292.13 hectares). In the case of flats, Serbia is followed immediately by Russia with 9.1% (131,621 m<sup>2</sup>), further on by Bosnia and Herzegovina (7.0%), UK (2.6%), Croatia (2.1%), Slovenia (1.6%) and Macedonia (0.9%). In the case of land acquisitions, Russian investors mostly buy as legal persons, while in the case of flats natural persons dominate. In any case, official data seem to deny the preponderance of Russians as dominating the Montenegrin real estate market. On the other hand, of course, it may be that the official data do not tell the whole story and that Russians are more present. The non-hesitation of Russians to buy land, which is not yet subject of



the urbanization plan, their tendency to buy for cash and high number of Russians on the streets of Montenegrin coastal towns speak in this direction.

## **5. Other types of Russia's economic involvement in Montenegro**

FDI may be an important indicator of Russia's economic penetration in Montenegro but certainly not the only one. Other obvious ones may be foreign trade relations, number of Russian tourists and foreign portfolio investment. Foreign portfolio investment is becoming increasingly important for Montenegro<sup>4</sup> but, unfortunately, no data exist on its geographical structure.

**Montenegro's foreign trade with Russia** is very small. In 2005, Montenegrin exports to Russia were only EUR 1.7 million, i.e. 0.56% of total Montenegrin exports, while imports from Russia amount to EUR 21.5 million, i.e. 3.15% of total Montenegrin imports (Statistical Office of Montenegro, 2006). In January-June 2007, Montenegrin exports to Russia were only EUR 1.4 million, i.e. 0.5% of total Montenegrin exports, while imports from Russia amount to EUR 6.7 million, i.e. 0.8% of total Montenegrin merchandise imports (Centralna Banka Crne Gore 2007c). The importance of Russia for Montenegrin foreign trade is more reflected in the dominant importance of RusAl's KAP for Montenegro's exports.

**Russian tourists** are extremely important for Montenegrin tourism. In January-end September 2006, they accounted for 16.3% (60,196) of all foreign tourists and 20.8% (452,953) of total night spending in Montenegro, what was far the highest of all the countries. In terms of night spending, Albania was in the second place by 4.41%. In 2007 the situation in tourism statistics changed completely, since Serbian tourists for the first time entered the statistics as foreign tourists. They are now the far major category of foreign tourists. Taking into account only non-Serbian foreign tourists, in January-end July 2007, Russian tourists kept and even slightly increased their positions. Their share in total number of non-Serbian foreign tourists increased to 17.4% and in terms of nights spending to 21.8%. One characteristic of Russian tourists is that on average they spent longer time in Montenegro than tourists from most other countries (Ministarstvo turizma i Nacionalna turistička organizacija Crne Gore, 2006).

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<sup>4</sup> In 2006 inflows of foreign portfolio investment were EUR 43.8 million and outflows EUR 48.3 million. In the first half of 2007, inflows amounted to EUR 76.4 million and outflows to EUR 73.5 million (Centralna Banka Crne Gore, 2007b, 2007c).

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## Appendices

### APPENDIX 1: Ownership structure of the banking system in Montenegro

|                               | Equity capital |       |                  |         | Total capital  |             |                  |             | Foreign investor's home country |
|-------------------------------|----------------|-------|------------------|---------|----------------|-------------|------------------|-------------|---------------------------------|
|                               | Value in 000   |       | % structure      |         | Value in 000   |             | % structure      |             |                                 |
|                               | EUR            | State | Private domestic | Foreign | EUR            | State       | Private domestic | Foreign     |                                 |
| Podgorička banka              | 14,634         | 11.84 | 11.17            | 76.99   | 22,345         | 11,8        | 11,2             | 77,0        | France                          |
| Crnogorska komercijalna banka | 15,347         | 0,0   | 44,76            | 55,24   | 19,203         | 0,0         | 44,8             | 55,2        | Hungary                         |
| Montenegrobanka NLB           | 6,818          | 1,7   | 3                | 95,30   | 20,607         | 1,7         | 3,0              | 95,3        | Slovenia                        |
| Atlasmont banka               | 8,825          | 5,55  | 52,91            | 41,54   | 9,631          | 5,6         | 52,9             | 41,5        |                                 |
| Opportunity banka             | 7,000          | 0     |                  | 100     | 9,971          | 0,0         | 0,0              | 100,0       | Belgium                         |
| Euromarket banka              | 0              | 0     |                  | 0       | 0              | 0,0         | 0,0              | 0,0         |                                 |
| Commercial bank Budva         | 6,370          | 0     |                  | 100     | 6,526          | 0,0         | 0,0              | 100,0       |                                 |
| Nikšička banka                | 7,168          | 55,3  | 38,6             | 6,1     | 7,765          | 55,3        | 38,6             | 6,1         |                                 |
| Pljevaljska bank              | 5,217          | 91,6  | 8,4              | 0       | 5,987          | 91,6        | 8,4              | 0,0         |                                 |
| Hipotekarna banka             | 13,449         | 12,02 | 23,21            | 64,77   | 5,745          | 12,0        | 23,2             | 64,8        |                                 |
| Hypo Alpe-Adria banka         | 10,000         |       |                  | 100     | 9,776          | 0,0         | 0,0              | 100,0       | Austria                         |
| <b>TOTAL</b>                  | <b>94,828</b>  |       |                  |         | <b>117,556</b> | <b>11,9</b> | <b>18,4</b>      | <b>69,7</b> |                                 |

Source: Ministry for International Economic Relations and European Integration, 2006.

## APPENDIX 2: FDI projects in Montenegrin tourism

| <b>Domestic company</b>   | <b>Foreign investor</b>           | <b>Home country of foreign investor</b> | <b>Type of investment</b> | <b>Initial investment (EUR)</b> | <b>Compulsory minimal additional investment (EUR)</b> | <b>Total investment (EUR)</b>      | <b>Year of investment</b> |
|---------------------------|-----------------------------------|---|---------------------------|---------------------------------|---|------------------------------------|---------------------------|
| Hotel "Maestral"          | Hit Montenegro                    | Slovenia                                | privatization             | 5,000,000                       |   | 27,100,000                         | 2001                      |
| Hotel "Splendid"          | Montenegro Stars Group            | Russia                                  | greenfield                | 2,425,000                       | 4,783,610   |                                    | 2005                      |
| Hotel Bianca Resort & Spa | Beppler&Jacobson                  | Great Britain                           | privatization             |                                 |   | 13,600,000                         | 2004                      |
| Hotel "Panorama"          | Springer&Sohns                    | Austria                                 | privatization             | 2,455,000                       |   | 7,511,000                          | 2004                      |
| Hotel "Vile Oliva"        | Platzer Leasing & Monte Mlin Sajo | Austria & Montenegro                    | privatization             | 3,500,000                       |   |                                    | 2006                      |
| Hotel "Otrant"            | Barkli SK                         | Russia                                  | privatization             | 2,500,000                       | 4,500,000 (in 4-5 years)                              |                                    | 2004                      |
| Hotel "Mediteran"         | Becovic Management                | USA                                     | privatization             | 940,000                         | 6,000,000   |                                    | 2005                      |
| Hotel "Grand Lido"        | Capital Estate                    | Russia                                  | privatization             | 10,800,000                      | 37,000,000 (in 3 years)                               |                                    | 2006                      |
| Hotel "Centar Igalo"      | HLT fond & primorje Tivat         | Slovenia & Montenegro                   | privatization             | 3,100,000                       | 4,000,000 (in 5 years)                                |                                    | 2007                      |
| Hotel "Avala"             | Beppler&Jacobson                  | Great Britain                           | privatization             | 3,200,000                       |   | 12,232,000                         | 2004                      |
| Hotel "Topla"             | Hunguest Hotels                   | Hungary                                 | privatization             | 800,000                         |   | 4,158,000                          | 2004                      |
| Hotel "Centar"            | Hunguest Hotels                   | Hungary                                 | privatization             | 1,000,000                       |   | 2,660,000                          | 2004                      |
| Ski Center Bjelasica      | Beppler&Jacobson                  | Great Britain                           | privatization             | 550,000                         | 3,500,000 (in 3 years)                                |                                    | 2007                      |
| HTP "Korali"              | Fin Invest & MFD Holding          | Slovenia                                | privatization             | 4,500,000                       |   | 14,000,000                         | 2005                      |
| Hotel "Slovenska plaza"   | Soravia                           | Austria                                 |                           |                                 | 30,000,000-50,000,000                                 |                                    |                           |
| Arsenal                   | PM Securities                     | Barbados                                | privatization             | 3,260,000                       | 106,000,000 (4 years)                                 | 29,000,000                         | 2006                      |
| Hotel "Sv. Stefan"        |                                   |   |                           |                                 | Annual rent for reconstruction period:                | Rent for the first operating year: | n.a.                      |
| Hotel "Milocer"           | Aman resorts                      | Singapore                               | leasing 30 years          |                                 | 1,095,000   | 2 100 000                          |                           |
| Hotel "Kraljicina plaza"  |                                   |   |                           |                                 |   |                                    |                           |

Source: Personal communication.

### APPENDIX 3: Montenegro privatization plans

| No.  | Company                                  | % of capital for privatisation | structure of capital for privatisation |                             |                 |                  |
|--|--|--------------------------------|--|-----------------------------|-----------------|------------------|
|  |  |                                | State                                  | Pension and Disability Fund | Employment Fund | Development Fund |
| <b>Realisation of public tenders is in progress for following companies:</b>   |  |                                |  |                             |                 |                  |
| 1  | MMK "Standard" AD Nikšić                 | 49,8168%                       | 19,9080%                               | 18,5529%                    | 6,1843%         | 5,1716%          |
| 2  | HTP "Boka" AD, Herceg Novi               | 59,4516%                       |  | 26,1495%                    | 8,7165%         | 24,5856%         |
| 3  | "4 Nov." Fabrika met.djelova AD Mojkovac | 31,8754%                       | 25,6686%                               | 4,6551%                     | 1,5517%         |                  |
| 4  | "4 Nov." Fabrika nam.djelova AD Mojkovac | 31,8746%                       | 25,6671%                               | 4,6556%                     | 1,5519%         |                  |
| <b>Public tenders will be announced for following companies:</b>   |  |                                |  |                             |                 |                  |
| 1  | "Lovćen osiguranje", Podgorica           | 41,1402%                       | 0,6817%                                | 12,1371%                    | 4,0463%         | 24,2751%         |
| 2  | Institut "Dr Simo Milošević" AD, Igalo   | 56,4806%                       | 29,4243%                               |                             | 3,4102%         | 23,6461%         |
| 3  | "Duvanski kombinat" AD, Podgorica        | 51,1046%                       |  | 18,4179%                    | 4,3409%         | 28,3458%         |
| 4  | "Jadransko brodogradilište" AD, Bijela   | 62,7107%                       |  | 22,8449%                    | 7,6149%         | 32,2509%         |
| 5  | "Montepranzo-Bokaprodukt" AD, Tivat      | 75,0557%                       |  | 17,7459%                    | 5,9088%         | 51,4010%         |
| 6  | AD Mlin "Muharem Asović", Nikšić         | 42,3936%                       |  | 31,7931%                    | 10,6005%        |                  |
| 7  | "Institut crne metalurgije" AD, Nikšić   | 51,1159%                       | 20,4270%                               | 19,0368%                    | 6,3456%         | 5,3065%          |
| 8  | "Poliex" AD, Berane                      | 46,4052%                       | 46,4052%                               |                             |                 |                  |
| 9  | AD "Marina", Bar                         | 51,3440%                       | 18,3953%                               | 12,6664%                    | 4,2222%         | 16,0601%         |
| 10   | AD "Optel" Pljevlja                      | 81,4341%                       | 53,5739%                               | 8,3582%                     | 2,7855%         | 16,7165%         |
| 11   | "Barska plovidba", Bar                   | 51,2323%                       | 18,3953%                               | 12,6664%                    | 4,2221%         | 15,9485%         |
| 12   | DOO "Montenegro bonus", Cetinje          |                                |  |                             |                 |                  |
| 13   | EI "Obod" AD Cetinje                     | 51,8013%                       | 22,7870%                               | 15,1170%                    | 5,0390%         | 8,8583%          |
| 14   | N.I.G. Pobjeda ad Podgorica              | 71,6857%                       | 71,6857%                               |                             |                 |                  |
| 15   | "EPCG" AD Nikšić -male hidroelektrane    |                                |  |                             |                 |                  |
| <b>Companies which will be privatised in accordance with article 1.4. of Privatisation Plan Decision</b>   |  |                                |  |                             |                 |                  |
| 1  | HTP "Budvanska rivijera" AD, Budva       | 58,7334%                       | 41,6353%                               | 12,8236%                    | 4,2745%         |                  |
| 2  | HTP "Ulcinjska rivijera" AD Ulcinj       | 60,7311%                       | 9,6954%                                | 24,1827%                    | 8,0610%         | 18,7920%         |
| 3  | "Luka Bar" AD, Bar                       | 54,0527%                       | 54,0527%                               |                             |                 |                  |
| 4  | "Montenegro airlines", DOO Podgorica     |                                |  |                             |                 |                  |
| 5  | "Željeznice Crne Gore" AD, Podgorica     | 68,8596%                       | 63,7523%                               | 3,8305%                     | 1,2768%         |                  |
| <b>Companies which will be privatised trough auction or stockexchange sale</b>   |  |                                |  |                             |                 |                  |
| 1  | AD Papir, Podgorica                      | 23,9865%                       |  | 17,9730%                    | 6,0135%         |                  |
| 2  | AD Božur Veleexport                      | 14,6427%                       |  |                             |                 | 14,6427%         |
| 3  | Agrotransport Podgorica, Podgorica       | 74,8762%                       |  | 22,4623%                    | 7,4893%         | 44,9246%         |
| 4  | Crnogorska plovidba                      | 100,0000%                      | 89,5000%                               |                             | 10,5000%        |                  |
| 5  | AD Crnogoracoop, Danilovgrad             | 13,8026%                       |  | 2,3793%                     | 0,7939%         | 10,6294%         |
| 6  | Dekor, Rožaje                            | 22,5948%                       |  | 16,9461%                    | 5,6487%         |                  |
| 7  | Gradevinar AD, Pljevlja                  | 39,4297%                       |  |                             |                 | 39,4297%         |
| 8  | HTP Berane AD, Berane                    | 33,3529%                       |  | 17,9985%                    |                 | 15,3544%         |
| 9  | AD Rudnici Boksita, Nikšić               | 0,0163%                        |  |                             |                 | 0,0163%          |
| 10   | Konfekcija Jekon DD                      | 65,8781%                       |  | 19,7612%                    | 6,5945%         | 39,5224%         |
| 11   | Koni konfekcija AD, Nikšić               | 0,9058%                        | 0,9058%                                |                             |                 |                  |
| 12   | Kooperacija, Podgorica                   | 76,4144%                       |  | 22,9296%                    | 7,6719%         | 45,8129%         |
| 13   | AD Luka Kotor                            | 23,3767%                       |  | 17,5053%                    | 5,8714%         |                  |
| 14   | Metalprodukt AD, Podgorica               | 8,8178%                        |  | 2,2007%                     | 6,6171%         |                  |
| 15   | Montenegrosport AD, Bijelo Polje         | 6,5164%                        |  | 0,5149%                     | 6,0015%         |                  |
| 16   | AD Nova trgovima, Rožaje                 | 2,8969%                        | 2,8969%                                |                             |                 |                  |
| 17   | AD Opštegrađevinsko Gorica, Podgorica    | 30,5837%                       |  | 22,8331%                    | 7,6100%         | 0,1406%          |
| 18   | Pekara AD, Niksic                        | 26,4199%                       |  | 19,7830%                    | 6,6369%         |                  |
| 19   | Radoje Dakic AD                          | 50,5796%                       | 30,6623%                               | 14,9379%                    | 4,9793%         | 0,0001%          |
| 20   | SI promet - L, AD Podgorica              | 29,2484%                       |  |                             |                 | 29,2484%         |
| 21   | Sokara AD Niksic                         | 26,3158%                       |  | 19,6881%                    | 6,6277%         |                  |
| 22   | Trgokoop AD, Podgorica                   | 6,1404%                        |  | 0,1335%                     | 6,0069%         |                  |
| 23   | Velepromet, Podgorica                    | 6,0990%                        |  |                             | 6,0990%         |                  |
| 24   | Vunko, Bijelo Polje                      | 14,2985%                       |  |                             |                 | 14,2985%         |
| <b>Companies in the field of utility industry and forestry which will be privatised in accordance with article 4. of the Privatisation Plan Decision</b> |  |                                |  |                             |                 |                  |
| 1  | Šumarsko preduzeće "Kolašin" AD          | 68,1091%                       |  | 20,4327%                    | 6,8109%         | 40,8655%         |
| 2  | Šumarsko preduzeće "Pljevlja" AD         | 81,8200%                       |  | 24,5460%                    | 8,1820%         | 49,0920%         |
| 3  | Šumarsko preduzeće "Podgorica" AD        | 75,0900%                       |  | 22,5270%                    | 7,5089%         | 45,0541%         |
| 4  | Šumarsko preduzeće "Šavnik" AD           | 67,1002%                       |  | 20,1304%                    | 6,7089%         | 40,2609%         |
| <b>Limited Liability companies which will be privatised in accordance with article 2. oh the Privatisation Plan Decision</b>                             |  |                                |  |                             |                 |                  |
| 1  | "Duklja Biba Kings" DOO, Podgorica       | 13,1200%                       |  | 3,9400%                     | 1,3100%         | 7,8700%          |
| 2  | "Petoljetka stan" DOO, Bijelo Polje      | 8,6500%                        |  | 8,6500%                     |                 |                  |
| 3  | Drvoimpex DOO, Kosovska Mitrovica        | 60,5600%                       |  | 18,2400%                    | 6,0200%         | 36,3200%         |
| 4  | "Fenix" DOO, Pljevlja                    | 3,1700%                        |  |                             |                 | 3,1700%          |
| 5  | Drvoimpex - Podujevo DOO, Podujevo       | 60,6000%                       |  | 18,2000%                    | 5,9900%         | 36,4100%         |
| 6  | DOO "Sekas", Podgorica                   | 100,0000%                      | 100,0000%                              |                             |                 |                  |

Source: MIPA.