



CENTRAL BANK OF
MONTENEGRO

CHIEF ECONOMIST'S REPORT FIRST QUARTER 2005

Podgorica, 2005

PUBLISHED BY: Central Bank of Montenegro
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Review of macroeconomic developments

	2004	III 2005	change in %
REAL SECTOR DEVELOPMENTS			
GDP (in current prices in EUR million)	1.535	340.1	
Industrial output index (compared to the same period the year before)	13,8%	3,9%	
Forestry (compared to the same period the year before)	6,0%	-44,7%*	
Construction (compared to the same period the year before)	-5,7%	6%*	
Revenues from tourism (EUR million)	179.7		
Employment			
Number of employed people	143.485	142.072**	
Number of unemployed people	64.968	58.075	
Inflation rate			
CPI (compared to December the year before)	1,5%	0,4%	
RPI (compared to December the year before)	4,3%	0,4%	
Average salaries (EUR)			
	195	203	
MONETARY DEVELOPMENTS			
M11 (EUR million)	437	476	
Total deposits (EUR million)	273	303	11
Deposits of corporate sector	85.5	78	-9
State deposits	46	50	9
Central government	11	12	9
Funds and municipalities	23	24	4
Deposits of financial institutions	31	54	74
Deposits of citizens (savings)	79	93	18
Total loans (EUR million)	281	306	9
Loans to economy	176	194	10
Loans to state	19	23	21
Central government	9	7	-22
Funds and municipalities	9	16	78
Loans to banks and financial institutions	4	2	-50
Loans to private citizens	74	76	3
Turnover in stock exchanges (EUR million)	42.7	43.1	
NEX Montenegro stock exchange	23.9	39.7	
Montenegroberza stock exchange	18.8	3.4	
Stock exchange indices			
NEX20	2523.15	3242.00	
NEX PIF	1603.51	1823.59	
MOSTE	115.13	123.64	
Average interest rate on 28-day T-bills***	8,83%	9,22%	
Average interest rate on 56-day T-bills***	8,62%	9,38%	
Average interest rate on 91-day T-bills***	9,70%	9,68%	
Average interest rate on 182-day T-bills***	10,15%	8,95%	
FISCAL DEVELOPMENTS			
<i>(EUR million)</i>			
Origin revenues	372.8	74.5	
Total expenditure and net borrowings	384.2	67.4	
Surplus/deficit of the state	-11.4	7.1	
Financing	9.6	0.4	
Grants	6.9	0	
Revenues from privatization	3.5	0	
Net borrowing	-0.9	0.4	
EXTERNAL DEVELOPMENTS			
Balance of current account (USD million)	-143	-35	
Trade balance (USD million)	-431	-68	
Balance of services (tourism +transport+fin.services+other services)	140	-1.5	
%trade deficit other balance ratio	67	49	
Capital and financial balance			
Balance of current account -% of GDP (in USD)	-9.7	-10.1	
Money reserve (EUR million)			
Frozen FX savings (EUR million)	123		
External debt (EUR million)	502.4		

* Data for the period January-February 2005, **Data for February 2005, ***Average at the last T-bills auction

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REVIEW OF MACROECONOMIC DEVELOPMENTS

The positive Feasibility Study marked the beginning of the association process of Montenegro (the State Union of SCG) to the European Union. This is only the first step, but there are some positive signals that the negotiations for signing the Stabilisation and Association Agreement (SAA) may start during the third quarter of 2005. Therefore, it is essential to start with the implementation of all recommendations given in the Feasibility Study without delay, and make all the necessary preparations for the aforementioned negotiations.

Macroeconomic stability was sustained throughout the first quarter of 2005. It was characterized by an increase in production, low inflation, improvement in monetary aggregates and balance of payments flows, and a growth in foreign direct investments.

The inflation rate, measured by the retail price index, amounted to 0.4%, the same as the cost of living index. Somewhat higher inflation can be expected in the second quarter due to a previously announced increase in the price of electricity. Developments in the reporting quarter lead to the conclusion that the projected inflation rate of 3% is real. However, in order to prevent the same situation as in the previous two years when the main culprits for inflation growth were movements in the prices of certain enterprises holding monopoly or oligopoly positions, it is crucial to enact the Law on the Protection of Competition as soon as possible. Moreover, the EU requested this in the Feasibility Study.

Industrial production recorded positive growth, being 3.9% higher than in the first quarter of 2004. After the seasonal fall in production in January and February, a rather high increase rate was recorded in March, 13.1%. The increase was recorded in manufacturing industry (6.4%) and mining and quarrying (7.9%), whereas a fall was registered in the production of electricity, gas and water supply, 1.5%.

Positive trends were present in monetary aggregates as well. If compared to 2004 and the first quarter of that year, banks' potential grew by 7% and 32%, respectively. Total deposits increased over the previous one-year period by 40%, whereby deposits by private citizens grew by 97%,

and deposits by the corporate sector fell by 3%. The amount of loans granted increased by 9% in relation to end-2004. Thus, at the end of the reporting quarter, for the first time term deposits by private citizens were higher than demand deposits. This is definite proof of the increasing credibility of the banking system.

The movements in the balance of payments significantly improved in comparison with the corresponding quarter of the previous year. According to preliminary data, the current account deficit amounts to EUR 34.5 million, showing a decline of 54%. It should be taken into account that balance of payments movements in Montenegro have an obvious seasonal character, so, as a rule, a high deficit is recorded in the first quarters, while a high surplus is recorded in the third quarter. The situation improved in all sub-balances, except in the sub-balance of current transfers, but this was almost entirely due to reduced foreign assistance. The total revenues to the current account amounted to EUR 162 million, being EUR 4 million lower than the year before. If foreign assistance, which is not a consequence of the output of Montenegrin economy were excluded from the analysis then the total revenues would increase by EUR 1.5 million. The total expenditure amounted to EUR 197 million, being almost 20% lower than in the comparative quarter of 2004.

The current account deficit was entirely covered by the capital account surplus. The foreign investments item (direct and portfolio) amounted to EUR 169 million, which is almost 70% more than in the previous two years (and even eighteen times more than in the comparative quarter). However, this is not only due to the improved investment climate, but also because of the privatisation of certain attractive enterprises in the reporting period. Bearing in mind the announced privatisations in 2005, it is reasonable to expect that foreign investments, which have already reached record levels, will continue to grow.

New loans in this period amounted to EUR 8.7 million, existing loans repaid EUR 9.4 million, resulting in lower foreign debt of EUR 0.7 million which, for the purpose of comparison, grew in the comparative period by EUR 13.5 million.

1. REAL SECTOR DEVELOPMENTS

The available indicators of economic performance in the reporting quarter point to a greater volume of industrial production, larger turnover in tourism and the construction industry and their influence on GDP, but also a significant decline in forestry and transportation. According to assessments by the Secretariat for Development, the recorded GDP growth was EUR 340.1 million, which is 5.5% nominally higher than in the same period the year before. Implementing the GDP deflator (the retail price increase) of 3.6% the obtained estimate of the GDP real growth is 1.9%.

An increase in retail prices at the average monthly rate of some 0.13%, which also characterized this period, is more moderate than in the comparative three-month period when it was 0.7%.

Table 1.1.
GDP in the first quarter (EUR million)

	2004	2005	Change in %	
			nominal	real
GDP	322.4	340.1	5.5%	1.9%

Source: Secretariat for Development, Montenegro

1.1. Activities

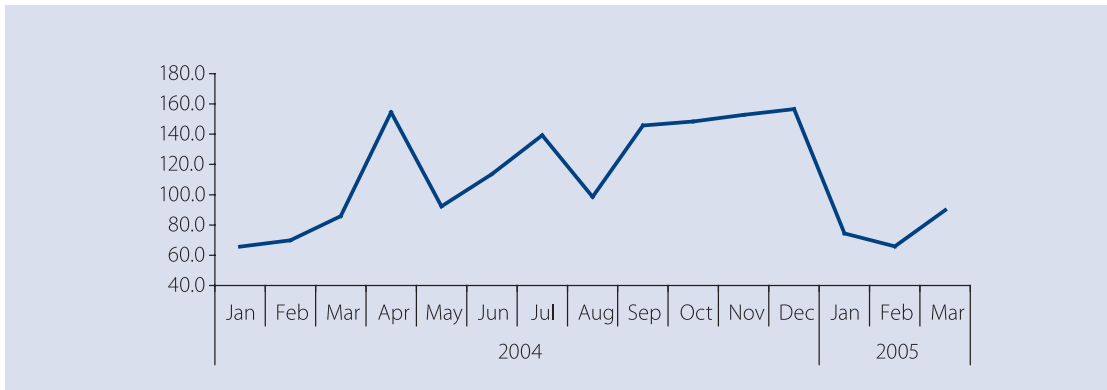
1.1.1. Industrial production

The physical volume of production was 3.9% higher than in the comparative period. This was recorded in the mining and quarrying sector and manufacturing industry, while the production of electricity, gas and water supply fell by 1.5%.

In spite of the lower production of coal, lignite, and peat of 9.7%, mining and quarrying output grew by 7.9% due to higher production in the mining of metal ore and other mining and quarrying of 29.1% and 56.4%, respectively. The lower production of coal, lignite, and peat was the result of the impeded production in opencast mines in the coalfield of Plevlja due to extremely low temperatures, and heavy snows, but also because of the lack of investment and machinery for production.

Monstat data reveal larger production in manufacturing industry by 6.4%. However, this was owing to a production increase in only four branches (the manufacturing of tobacco products by 59%, chemicals and chemical products by 571%, machinery by 50.5%, and furniture and miscellaneous products by 25%). The contribution of these four branches to total production is only 5.6%. The other thirteen branches of manufacturing, with a 62% contribution, lagged behind the average production recorded in the first three months of 2004. This ranged from – 73.5% (the manufacturing of wood and wood products) to – 2.3% (the manufacturing of other non-metal mineral products). The manufacturing of basic metals (aluminium), contributing 43% to total industrial production, was 3.8% lower.

Graf. 1.1.
Industrijska proizvodnja (index, Ø 2000 = 100)



1.1.2. Tourism

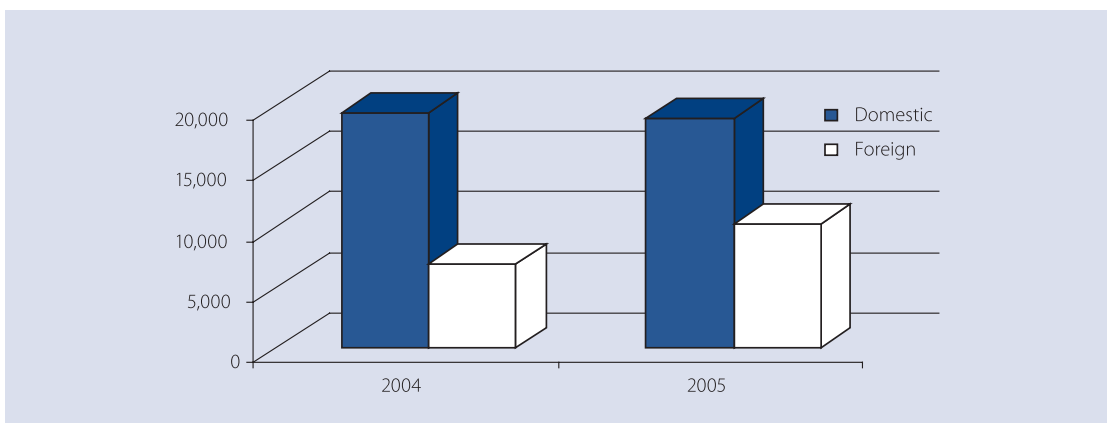
The reduced production of electricity, gas and water supply of 1.5% was due to the fact that total production in Montenegrin power plants amounted to 95% of the figure projected which was not fulfilled in full because of problems in coal delivery to the thermo power plant "Pljevlja" that was out of order for 23 days during the reporting period, thus achieving output some 20.6% less than planned.

Compared to the same month in 2004 and February 2005, industrial production in March 2005 was 4.5% and 13.1% higher, respectively.

Regardless of the unfavourable weather conditions and poor road conditions during February and March, the number of tourists who visited Montenegro in the reporting period grew by 10% in comparison with the comparative quarter of 2004. Fewer tourists were recorded only in mountain resorts (no less than 40%), whereas all other tourist destinations recorded more visits than the previous year. The number of tourists to seaside resorts was significantly greater, 37% more or 16.9 thousand.

The number of visits by domestic tourists fell by 27% due to fewer visits to seaside resorts of 41%. Of the total number of domestic tourists (18.9 thousand), 9.9 thousand visited seaside resorts, which is 12% more than in the comparative period.

Graph 1.2.
Tourist visits in the period January - March

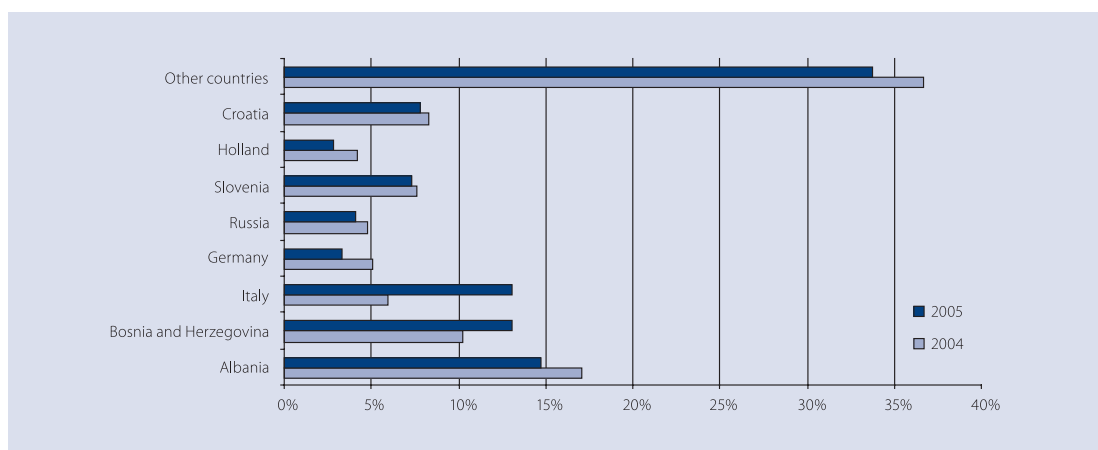


Source: Monstat

Foreign tourist arrivals continued to grow in 2005, resulting in an increase of 47%, which induced a change in the structure of tourists, so the contribution of foreign tourists rose from 26.4% (in the first quarter of 2004) to 35.1% in the reporting period. Their number in seaside resorts grew by 100%, while in mountain resorts it saw a fall of 33%.

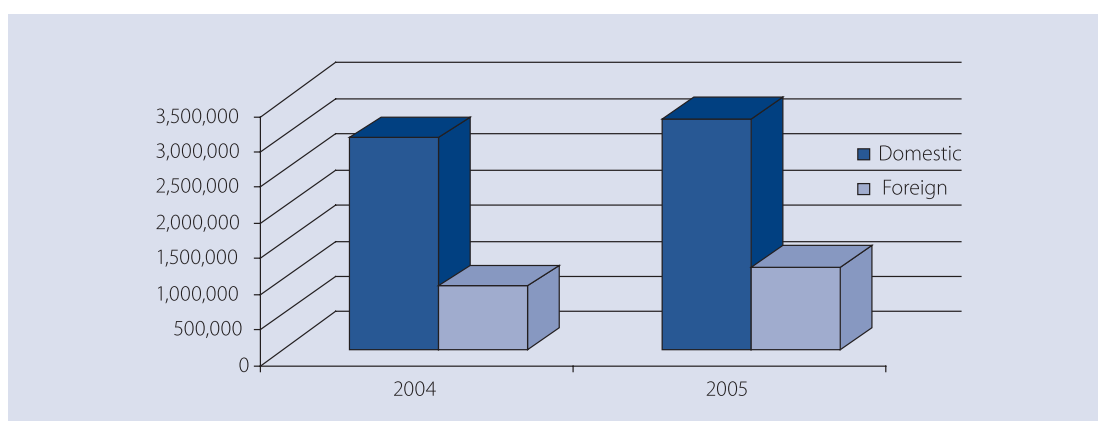
Data on tourist overnight stays shows that the tourists stayed in Montenegrin tourist centres for a longer time, so a total of 115.5 thousand tourist nights were recorded, which is a growth of 11.2% in relation to the same three-month period in 2004. Domestic tourists nights amounted to 77.7 thousand or 7% less, while foreign tourist nights increased by 84% (119% more in seaside resorts).

Graph 1.3.
Structure of foreign tourist arrivals in the period January - March



Source: Monstat

Graph 1.4.
Tourist nights in the period January - March



Source: Monstat

Economic policy for 2005 forecasts an increase in the number of tourists of 8%, and the results achieved in the first quarter point to the likely fulfilment of this plan. The same confirmation comes from early bookings by foreign tourists for the forthcoming period achieved through promotions in numerous world fairs. Such developments indicate that the privatisation and reconstruction of hotels carried out so far have resulted in a better quality service and the creation of new diversified services, which have made seaside resorts more attractive even during the winter season, having a positive effect on the total tourism turnover. Eleven hotels were privatised during the previous year, and other privatisations in tourism to be completed by the end of 2005 are expected to additionally improve tourism services. The activities undertaken by the Ministry of Tourism also had a positive effect on the promotion of Montenegro as a quality tourist destination.

1.1.3. Forestry

Only 1,510m³ of wood products were produced in the first two months of the year, which is 44.7% less than in the comparative period. Bad weather conditions were the reason for the lower production causing no woodcutting in February, but the production in January was 8% higher than in the comparative month in 2004. Some 1,700 m³ of wood products were sold in these two months, recording a fall of 5% in comparison with the same two months the year before.

At the beginning of February, the Forest Management of Montenegro announced a tender for bids for the utilization of forests in 2005, offering 400 thousand cubic metres of wood, and the annual income from concession fees is planned to amount to some EUR 5 million. The privatisation and integration of wood manufacturing enterprises continued, but these activities should be accelerated to prevent dysfunctional and undeveloped enterprises further hindering the development of forestry and wood processing.

The first draft standard was prepared pursuant to the FCS methodology (the international methodology for obtaining a certificate of sustainable forestry) necessary for Montenegro to access the most important export markets, which, alongside successful privatisation and integration of wood manufacturing enterprises, should induce competition and increase production in this area.

1.1.4. Construction Industry

The value of registered construction work in the first two months amounted to EUR 5.6 million, being 14% higher than in the corresponding months in 2004. At the same time, effective hours amounted to 616,000 or 6% more.

1.1.5. Transportation

Monstat data on total turnover in transportation services point to a lower volume of traffic in relation to the same period the year before. Poor road infrastructure, landslides and heavy snows which caused frequent traffic delays in road transport resulted in reduced transportation of passengers and freight by 42% and 26%, respectively.

As for air traffic, 10% less passengers and 6% less freight was transported in this period. The activities on the project "Modernisation of Podgorica and Tivat Airports", which was financed by the EBRD and the EIB to the amount of EUR 22 million, were accelerated in the reporting period. In addition to reaching international standards in safety and service quality, the successful completion of this project will contribute significantly to the future development of the Montenegrin economy, and particularly of tourism.

Data on the turnover of freight and passengers via railways shows an increase of 40% and a fall of 12%, respectively. The reasons for the continuous decline in the number of transported passengers are the very poor quality railway infrastructure and underinvestment in its maintenance causing interruptions, speed reductions and subsequently longer travel time.

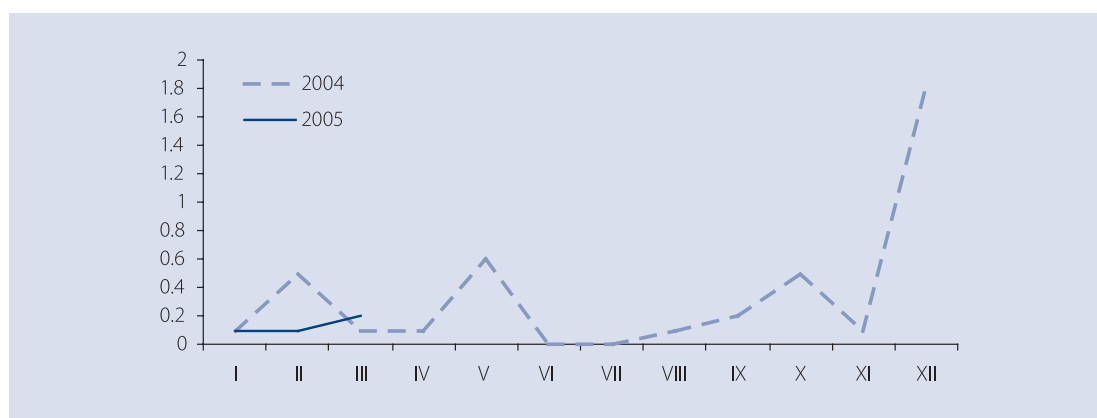
The transport of freight in the marine transport fell by 49%. Total turnover in ports amounted to 408 thousand tonnes or 31% less, of which 266 thousand tonnes referred to exports, and 142 thousand tonnes to imports.

1.2. Prices

The higher prices of goods and services of 0.4% and 0.3%, respectively, induced the inflation of 0.4% in the first quarter of 2005 (measured by the retail price index in March 2005 in relation to December 2004). This is a much slower growth in comparison with the same quarter of 2004 when prices rose by 0.8%, which speaks in favour of a continued slowdown in prices in the current year. The comparison with the previous year shows the same pace of increase in the prices of goods, whereas the prices of services grew much slower in this year. (Annex 1, Table 8)

Observed by certain categories of goods, the main causes of inflation were some groups of industrial products, primarily the higher prices of "Liquid fuels and lubricants" item of 6.4% with a 24% contribution to total inflation. These higher prices were due to the continued upsurge in the prices of crude oil in the world market. To wit, very cold weather in February and March in the United States and most of Europe, alongside the continued economic growth of China largely influenced the increased demand which OPEC, in spite of higher production, could not meet in full. Thus the price of the OPEC reference basket was 37% higher in March than in December the year before.

Graph 1.5.
Retail prices, monthly rates of increase



Source: Monstat

Table 1.2.
Retail prices (change in percents)

	<u>III 2002</u> <u>XII 2001</u>	<u>III 2003</u> <u>XII 2002</u>	<u>III 2004</u> <u>XII 2003</u>	<u>III 2005</u> <u>XII 2004</u>
TOTAL INDEX	3.3%	2.0%	0.8%	0.4%
GOODS	2.4%	0.6%	0.4%	0.4%
-Agricultural products	13.2%	-0.7%	-1.6%	1.2%
- Industrial products	1.7%	0.7%	0.5%	0.3%
-Beverages	2.8%	0.1%	0.3%	1.6%
SERVICES	7.2%	8.3%	2.7%	0.3%

Source: Monstat

The current Law on Excise Duties ("Official Gazette of RM", no. 65/01 and 12/02) foresees a gradual adjustment of excise duties to the levels existing in the European Union. Accordingly, new excise duties on alcoholic beverages have been implemented as of 1 January 2005: the excise on beer increased from EUR 1.55 per alcohol volume per hectolitre to EUR 1,90, and the excise on the manufacturing of brandy increased from EUR 100 to EUR 550 per hectolitre of pure alcohol. These increases were the main reasons for the increase in the retail prices of beverages of 1.6% and their contribution to total inflation of 23%.

The prices of agricultural products rose by 1.2%, much faster than in the previous two years when these prices recorded a fall in the first quarter. The reasons for this increase were the unfavourable weather conditions and heavy snow which resulted in lower supply in this period.

The increase in the prices of services of 0.3% were mainly contributed to by the higher prices of obligatory vehicle insurance of 1.33% and their 10% contribution to total inflation in the reporting period. The prices of handicraft services and educational services slightly increased, while the prices of other services remained the same.

Table 1.3.
Monthly average prices of crude oil in the OPEC reference basket and certain types of crude oil (USD/barrel)

Description/Period	2004	2005		
	XII	I	II	III
OPEC	35,70	40,24	41,68	49,07
Brent	39,43	44,01	44,87	52,60
WTI	43,12	46,64	47,69	54,09

Source: Monthly oil market reports, OPEC

Table 1.4.
Contribution of certain goods and services to inflation

	Total	Weight	Contribution
		10000	100%
1	GOODS	8108	86%
11	Agricultural products	514	17%
12	Manufactured products	7594	69%
121	Manufactured food products	3246	14%
122	Beverages	526	23%
123	Tobacco	514	0%
124	Manufactured non-food products	3308	32%
12473	Liquid fuels and lubricants	141	24%
2	SERVICES	1892	14%
21	Handicraft	131	2%
22	Public utility services	248	0%
23	Financial and other services	316	10%
24	Education	114	2%
25	Social security	65	0%
26	Transportation and PTT services	1018	0%

Source: Monstat and calculations by CBM

The quarter-on-quarter and the month-on-month comparisons of 2004 and 2005 and March 2004 and March 2005 show an increase in retail prices of 3.6%.

If the Government of Montenegro accepts the proposal by the Electrical Power Industry of Montenegro on the change of electricity tariffs, i.e. if the price of electricity increases, it would induce an overall increase in retail prices and directly induce a deterioration of the living standard of citizens. Since the actual percentage growth has not been determined yet, the future growth in retail prices cannot be quantified.

The cost of living followed the pace of retail prices, thus growing by 0.4% in the reporting period. The fastest growth was recorded in transportation and PTT services (1.5%), then apartmental expenses

(0.8%), and expenses for tobacco and beverages (0.7%). The expenses that rose below average were those for food (0.3%), clothes and footwear (0.3%), culture and entertainment (0.2%), and hygiene and health care (0.1%). Household expenses fell by 0.3%.

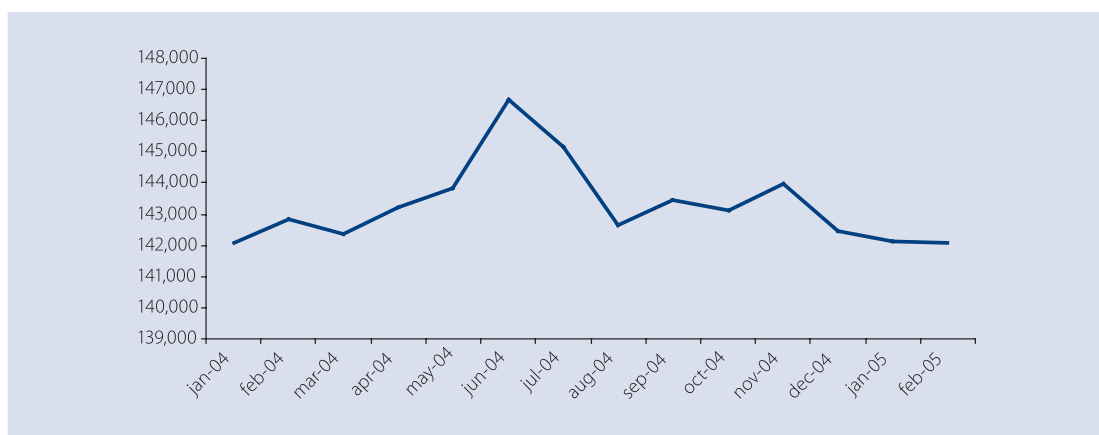
Producers' prices of manufactured products grew over the period at the average rate of 0.83% - much faster than retail prices, so compared to December 2004 they grew by 2.5%. Such a growth was due to the continued increase in the prices of aluminium, so the prices of intermediate goods rose by 3.8%, and producers' prices in manufacturing industry by 3.2%. In addition, higher prices in manufacturing industry were influenced by the aforementioned excise duties on the manufacturing of alcoholic beverages, so the prices of food products and beverages rose by 1.7%.

1.3. Labour Market

The Government of Montenegro adopted a new methodology for the calculation of the number of employed people according to which this number is determined on the basis of the number of medical-care insured employees and the number of issued medical-care booklets wherein the starting point is that employers have correctly fulfilled their obligation to register their employees for medical care and new medical-care booklets which imposes financial, i.e. fiscal liability on

them. The correction of the "initial number" of employees shall be made on the basis of the Pension Fund data, i.e. through the M1 form (pension-disability insurance register form) and M2 form (pension-disability withdrawal form), that is, dynamics in the change of the initial number shall be monitored. According to the Health Care Fund, the number of medical-care insured employees and farmers in Montenegro in December 2004 was 145,000 and 9,792, respectively, which gives a total of 154,792 people that can be considered employed.

Graph 1.6.
Number of employed people in Montenegro



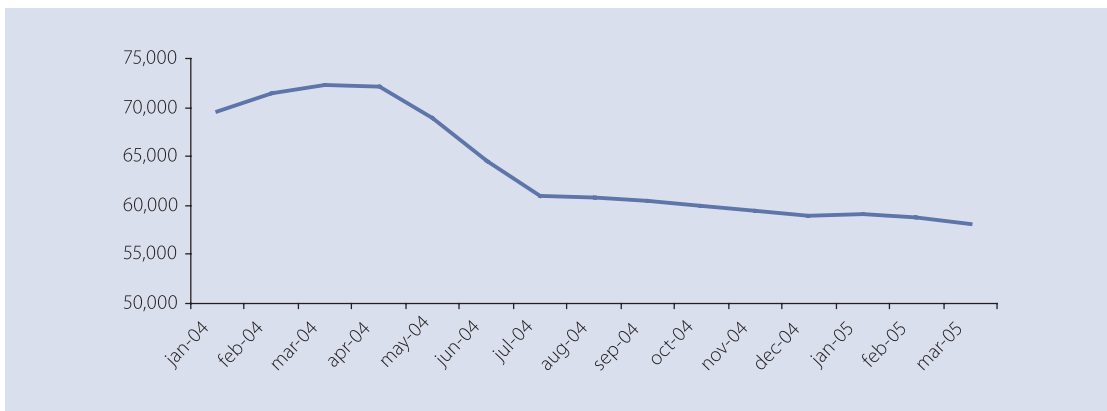
Source: Monstat

The average number of employed people in the first two months of the year was 142,109, which is the same as in the comparative months of 2004.

Employment Bureau data shows that a downtrend in the number of unemployed people continued in 2005. To wit, in the Bureau's records there were on average 58,655 unemployed people in the reporting

period, which is 1.4% less than at the previous year-end. If compared to the same period of 2004, this number is 17.5% lower. According to the Bureau's assessments, of the total number of unemployed people 80% are really unemployed, and 20% are working (illegally, on farms, and the like) or are in the records for medical-care insurance and other rights they are entitled to for being unemployed.

Graph 1.7.
Number of unemployed people in Montenegro



Source: Monstat

Box 1.1. Discrepancies between Supply and Demand in the Labour Market

The analysis of the time period needed to find a job shows that the average time is some four years. One of the reasons for such a long period is the fact that there is a structural inconsistency between supply and demand in the Montenegrin labour market, i.e. the labour force supply is some 2.7 times larger than the demand (official job announcements by employers). Data from December 2004 shows that 922 occupations were on the Bureau's records, but the need for only 570 was announced. There was some demand in 487 classified occupations, no demand for another 435, and whilst a further 263 were listed as needed, there were no people on the books able to do them. Observed by qualifications, there is a surplus in professions with a high school degree, and the largest deficit is in professions requiring a university degree. Therefore, the programs implemented by the Employment Bureau to improve the preparation of people for employment, that is, the quality improvement of the labour force, are of great importance. The implementation of 155 various programs during 2004 (training, additional qualifications, change of qualifications, specialisations) included 2,075 people. Such programs should be continued with in the forthcoming period taking into account the fact that additional knowledge and skills are more and more needed alongside the basic skills acquired through regular education.

The average salary in March amounted to EUR 309,44, and the average salary without taxes and contributions was EUR 203. Compared to the

previous month, it grew by 3.4%, while the recorded increase in relation to the average salary in 2004 was 2%.

2. MONETARY DEVELOPMENTS

The main monetary indicators recorded positive rates of increase at the end of the reporting period in relation to the comparative period and end-2004:

Table 2.1.
Rates of increase of some monetary indicators

Description/Period	III 2005/ XII 2004	III 2005/ III 2004
Money supply M21	+ 27.5%	+ 43.6%
Banks' potential	+ 7%	+ 32%
Total loans	+ 9%	+ 42%
Loans to corporate sector	+ 10%	+ 39%
Loans to private citizens	+ 2.5%	+ 31%
Total deposits	+ 11%	+ 40%
Deposits by corporate sector	- 8%	- 3%
Deposits by private citizens	+ 18%	+ 97%
Allocated reserve requirements	+ 5.4%	+ 36%

Banks continued to lend, but it did not represent a problem in term of their liquidity since they did not use loans for liquidity maintenance,

the percentage of loans due was relatively low, and the sources of the lending activity (deposits and borrowings) were greater than the level of the loans granted. The main loan beneficiaries in this period were the corporate sector and private citizens which took 39% and 31% more loans, respectively, in relation to the same period in 2004.

The level of total deposits as of end-2004 rose by 11%, and the annual increase rate was 40%. This was mainly caused by the increase in deposits by financial institutions and private citizens, while deposits by the corporate sector fell.

In addition, banks did not borrow from foreign banks, so the total debt with foreign banks/institutions amounted to EUR 52.4 million. At the same time, banks' deposits and the CBM deposits with foreign banks amounted to EUR 54.8 million and EUR 163.2 million, respectively.

During the reporting period, the Central Bank of Montenegro passed numerous regulations governing domestic payment operations, as well as the Regulation on Minimal Standards for Operational Risk Management, and the Regulation on Minimal Standards for Country Risk Management ("Official Gazette of RM", no. 8/05).

2.1. Money Supply

The money supply M21 amounted to EUR 697 million at end-March 2005, which is 27.5% and 25.6% more than at 2004 year-end and the previous month, respectively. This substantial increase was due to the growth in the Government's deposits with the CBM resulting from the inflow of funds from the privatisation of Telecom Montenegro.

The dominant share of the money supply M21 was the money supply M11, that is demand deposits, contributing 68%, and term deposits made up the remaining 32%.

The money supply M11 amounted to EUR 476.2 million, being 9% larger than at end-2004, and term deposits of EUR 211 million were 105% greater due to the aforementioned privatisation.

Monetary base (M0) is comprised of banks' deposits with the CBM-Payment Operations (banks' giro accounts and allocated reserve requirements, excluding the part banks keep as treasury bills) and the estimated amount of cash in circulation. **Monetary aggregate M1** is comprised of M0, demand deposits by the non-banking sector with banks and the CBM-Payment Operations, in EUR and other currencies, excluding deposits by the central government. **Monetary aggregate M11** comprises M1 plus the central government's demand deposits in EUR and other currencies. **Monetary aggregate M2** includes M1 and the non-banking sector's term deposits with banks, in EUR and other currencies, excluding deposits by the central government. **Monetary aggregate M21** comprises M11 plus the central government's term deposits in EUR and other currencies.

Table 2.2.
Money supply M21, balances at end-months, EUR thousand

Description/Period	2003	2004	2005		
	XII	XII	I	II	III
M0	284,909	290,935	287,562	291,512	290,848
Banks' deposits with CBM	34,909	40,935	37,562	41,512	40,848
Estimate of cash in circulation	250,000	250,000	250,000	250,000	250,000
M1	386,121	430,657	416,111	428,064	451,793
M0	284,909	290,935	287,562	291,512	290,848
Demand deposits in EUR	83,148	130,218	118,566	124,830	148,976
Demand deposits in EUR with banks	82,688	129,813	118,413	124,793	148,963
Demand deposits in EUR with the CBM	460	405	153	37	13
Demand deposits in other currencies	18,064	9,504	9,983	11,722	11,969
M11	402,586	437,114	430,423	439,820	476,246
M0	284,909	290,935	287,562	291,512	290,848
Demand deposits in EUR	98,776	136,302	132,491	136,408	173,286
Demand deposits in EUR with banks	97,894	135,623	126,023	132,762	155,678
Demand deposits in EUR with the CBM	882	679	6,468	3,646	17,608
Demand deposits in other currencies	18,901	9,877	10,370	11,900	12,112
M2	460,837	535,548	522,016	537,908	565,852
M1	386,121	430,657	416,111	428,064	451,793
Term deposits in EUR	71,229	98,128	97,304	102,132	104,334
Term deposits in other currencies	3,487	6,763	8,601	7,712	9,725
M21	494,290	546,525	540,856	555,080	697,024
M11	402,586	437,114	430,423	439,820	476,246
Term deposits in EUR	88,203	102,648	101,832	107,548	211,053
Term deposits in other currencies	3,501	6,763	8,601	7,712	9,725

2.2. Banks' Liquidity

The level of banks' available liquid assets in the country and abroad (the average being EUR 84 million) were always higher than their accounts payable (the average being EUR 13 million), which created surpluses to the average amount of EUR 71 million.¹ This points to a satisfactory level of liquidity of banks in the reporting period. However, it should be stressed that daily reports on liquidity submitted by one bank (against which rehabilitation measures were imposed) in the period from mid-February to end-March showed that its accounts payable were higher than discharged debts, which points to a problem in servicing current liabilities.

Banks' total assets available for payments fluctuated in this period from EUR 64.5 million and EUR 101.6 million at the end of the quarter, increasing 1% as of end-2004. The main contributors to these assets were assets available for domestic payments, 68%, and the average amount of assets available for international payments amounted to EUR 31 million.

The level of liquid assets in relation to short-term liabilities² was above the prescribed minimum for the banking system.

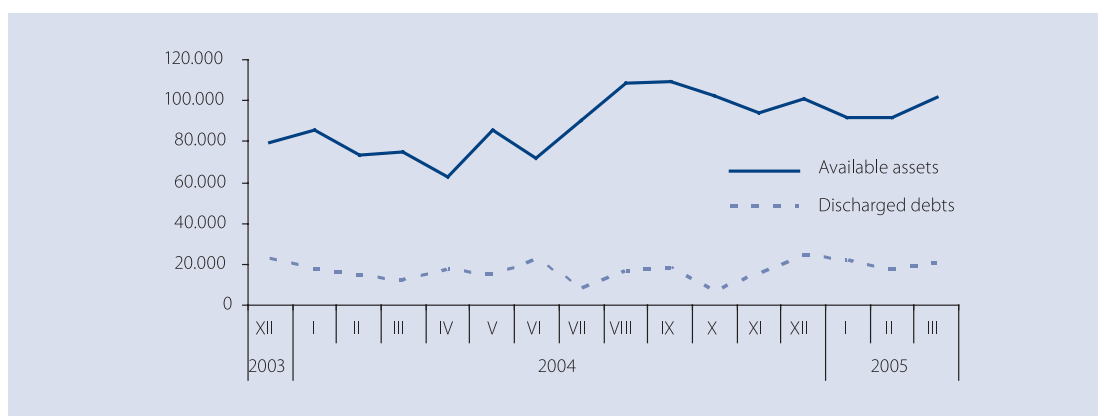
¹ Source: Banks' reports on daily liquidity

² Source: Banks' decade reports on liquidity

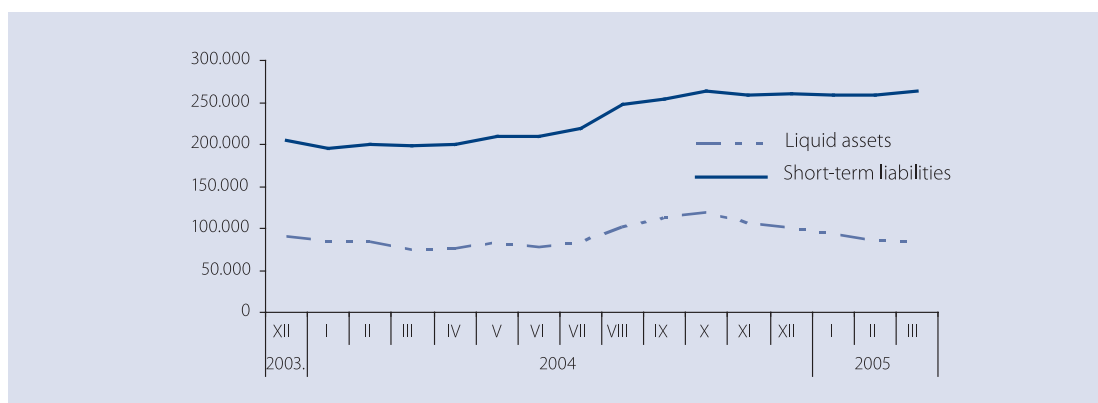
Table 2.3.
Banks' available assets and discharged debts at end-months, EUR thousand

Description/Period	2003	2004				2005		
	XII	III	VI	IX	XII	I	II	III
Available assets	79,578	74,541	71,769	108,945	100,727	91,519	91,579	101,620
Discharged debts	22,746	12,223	21,888	18,016	24,380	22,512	17,805	20,649
Surplus/deficit	56,832	62,318	49,881	90,929	76,347	64,769	73,774	80,971

Graph 2.1.
Available assets and discharged debts, EUR thousand



Graph 2.2.
Banks' liquid assets and short-term liabilities, decade average, EUR thousand



2.3. Aggregated balance sheets of banks³

Banks' total assets amounted to EUR 474.9 million⁴ at the end of the quarter, which is 7% and 32% more than at 2004 year-end and the corresponding quarter of 2004.

A growth in total assets was recorded in seven, and a fall in three banks. One bank had the largest contribution to total assets, 34%, and the three biggest banks, which contributed 63%, were among the five banks whose total contribution to total assets of banks was 78%.

Table 2.4.
Banks' contribution to total assets of banks,
2002-2005, in %

Description	XII 2004	III 2005
1 bank	31	34
3 banks	60	63
5 banks	77	78

The largest contributors to total **assets** of banks, 65% and 24% were total loans and cash assets and deposits with depository institutions, respectively.

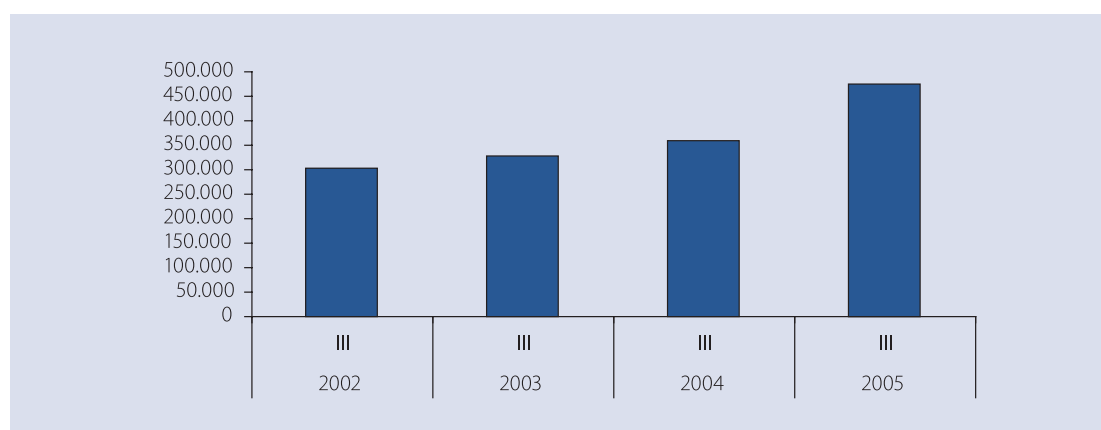
Cash assets and deposits with depository institutions amounted to EUR 115 million at end-March, which is 17% more than in the previous month, and the annual increase rate was 30%. Cash assets amounted to EUR 51.2 million, and deposits with depository institutions EUR 63.7 million, of which 55.4% referred to interest-bearing deposits with foreign banks/financial institutions.

Banks granted EUR 306 million worth of loans in this period, which represents an uptrend of 9% as of 2004 year-end, and a 42% growth in relation to the same quarter of the previous year.

Observed by banks, in comparison with the end of 2004, two banks granted 2% and 13% less loans in this period, while other banks recorded a growing trend in their lending activities with the highest increase rate being 21%. In addition, 35% of total loans were granted by one bank, and the remaining 65% by three banks.

The maturity structure of total loans shows that short-term loans made up 54.4%, long-term loans 43.7%, and claims due 1.9%.

Graph 2.3.
Total assets of banks in Montenegro at the end of the first quarter, EUR thousand



³ Preliminary data for March 2005

⁴ Annex B, Table 11

In the banks' loan portfolio, predominant were loans granted to the corporate sector of EUR 194 million, being 10% higher than at 2004 year-end, and with the annual increase rate of 39%. Most of the loans were to privately owned enterprises, EUR 177 million, which made up 91% of total loans to this sector, and 58% of total loans granted in the reporting period.

The corporate sector mainly used short-term loans which represented 57% of the loans granted to this sector. The same as at the end of the previous year, over 70% of loans granted to state owned and privately owned enterprises were short-term loans, while entrepreneurs were mainly granted long-term loans.

General Government's⁵ borrowing was 23% higher as of end-2004, whereas the Central Government's borrowing fell by 24%, and the municipalities' and state funds' borrowing increased by 16% and 84%, respectively.

Banks' and financial institutions' borrowing with domestic banks was below the level reached at the end of the previous year. At end-March, banks owed to domestic banks for the loans taken EUR 505 thousand, and other financial institutions owed EUR 1.6 million, which is 46% less than the year before.

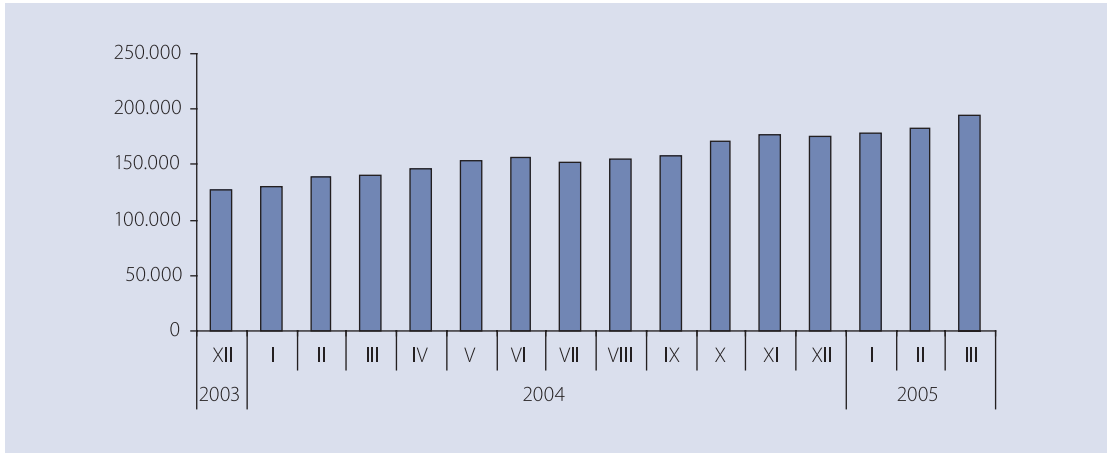
At the end of the first quarter of 2005, private citizens owed to banks for the loans taken EUR 76.3 million, which is 2.5% more than at end-2004, and the annual increase rate was 31%.

Table 2.5.
Total loans, EUR thousand

	2004				2005		
	III	VI	IX	XII	I	II	III
Financial institutions	472	609	128	3,854	3,110	3,210	2,077
Banks	25	400	25	1,000	300	500	505
Other financial institutions	447	209	103	2,854	2,810	2,710	1,572
Non financial institutions	141,941	159,832	163,248	184,298	187,470	192,828	204,657
Public non financial institutions	16,211	18,061	14,026	18,248	17,325	18,595	21,705
State owned enterprises	13,945	14,018	9,370	10,545	9,687	10,644	12,912
Public owned organizations	2,266	4,043	4,656	7,703	7,638	7,951	8,793
Other non financial institutions	125,730	141,771	149,222	166,050	170,145	174,233	182,952
Privately owned enterprises - domestic	121,168	136,664	142,763	159,278	162,529	166,511	177,069
Entrepreneurs	4,558	5,103	5,455	5,768	5,814	5,928	4,075
Foreign enterprises	4	4	1,004	1,004	1,802	1,794	1,808
General Government	15,705	12,433	10,832	18,758	18,438	20,281	23,140
Central Government	12,349	8,213	6,278	9,162	6,758	6,726	6,955
Agencies and institutions of central Government	598	477	504	405	255	364	414
Local Government - Municipalities	1,165	1,463	1,435	1,735	2,116	2,199	2,018
Government funds	1,593	2,280	2,615	7,456	9,309	10,992	13,753
Private citizens	58,138	65,029	65,578	74,393	73,154	74,377	76,320
Non profit organizations	9	126	127	180	114	124	178
Other	0	0	0	0	0	0	0
TOTAL	216,265	238,029	239,913	281,483	282,288	290,820	306,372

⁵ General Government: Central Government, agencies and institutions of the Central Government, local Government (municipalities) and state funds.

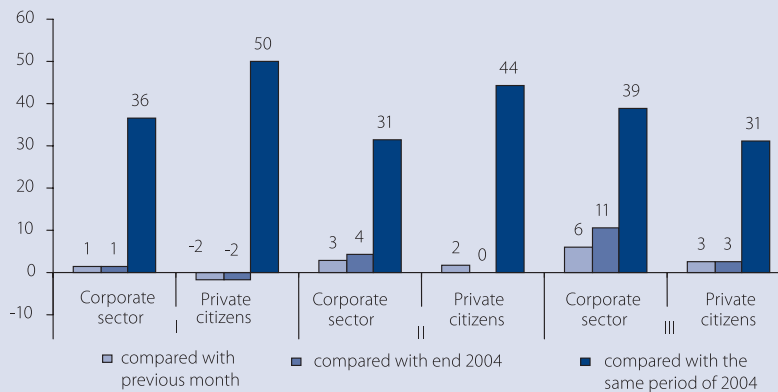
Graph 2.4.
Loans granted to corporate sector, December 2003 – March 2005, EUR thousand



Box 2.1. Loans Granted to the Corporate Sector and Private Citizens

The main beneficiaries of loans by domestic banks at the end of the reporting quarter were the corporate sector and private citizens, 63% and 25% of total loans, respectively. In other words, 88% of the domestic banks' portfolios referred to loans granted to these sectors, and an increase in these loans was obvious during this period.

Graph 1.
Increase rates to the corporate sector and private citizens during the reporting period, in %



The average monthly increase rate of loans granted to the corporate sector was 3%, the same as in the comparative quarter of 2004, but in the first two months of the reporting quarter these rates were lower (1% and 3%) than in the comparative months (3% and 7%), but a monthly increase rate of 6% was achieved at end-March 2005 (a slight increase of less than 1% in the comparative

month). At the end of this period, the corporate sector was granted 11% and 39% more loans than in 2004 and the corresponding quarter of the same year, respectively.

Loans granted to private citizens grew at the average increase rate of 1% (due to the fall of 2% in January), showing an increase of 3% as of end-2004, and the annual rate of increase was 31%. However, the increase in these loans was more moderate if compared to the same period the year before.

Nominal annual interest rates on loans to the corporate sector ranged between 4% and 30% on short-term loans, and from 1.5% to 24% on long-term loans, whereas the corresponding effective interest rates were between 5.48% and 39%, and 1.5% and 28.9%, respectively. Short-term loans were mainly used by enterprises.

Nominal annual interest rates to private citizens varied between 3% and 36%, and the corresponding effective interest rates from 3% to 48.4%. Private citizens were mainly granted long-term loans.

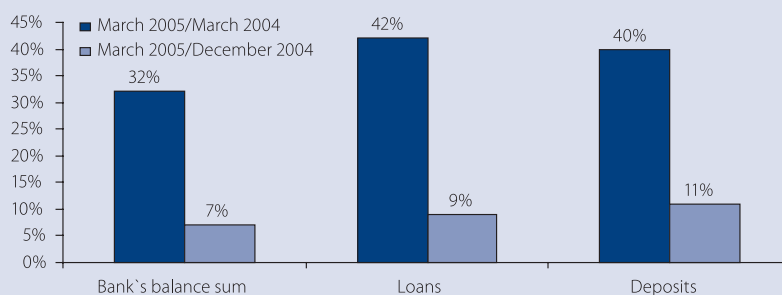
Banks' investing in securities in this period amounted to EUR 23.5 million (5% of total assets), which was slightly less than invested the year before.

Provisions for potential losses on asset items amounted to EUR 14.2 million, dominated by loan loss provisions, 92.9%, while the remaining portion referred to other asset items.

Box 2.2. Rates of Increase in Banks' Potential, Total Loans and Deposits at the end of the First Quarter of 2005

Basic monetary indicators recorded positive rates of increase at the end of the reporting period and as of end-2004. Thus, banks' potential rose by 7%, total loans by 9%, and deposits by 11%.

Graph 1.
Increase rates of selected indicators, March 2005 in relation to March and December 2004, in %



The comparison with the same period the year before shows that banks' potential grew by 32%, total loans by 42%, and deposits by 40%.

The structure of banks' **liabilities** did not change significantly as of 2004 year-end. Thus, total deposits made up 64%, banks' borrowings 13%, banks' liabilities 4%, and banks' capital 19% of total liabilities.

After a decline in January, total deposits grew over the next two months, reaching the amount of EUR 304 million, which is 11% less than the year before.

Graph 2.5.
Total deposits, March 2002 - March 2005, EUR thousand

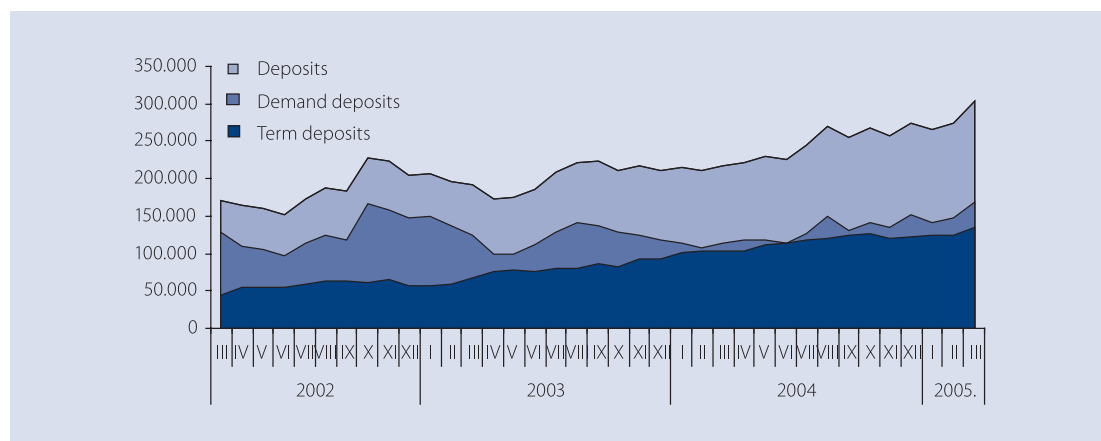


Table 2.6.
Structure of deposits by sectors, EUR thousand

Description/Period	2004			2005		
	XII			III		
	Demand deposits	Term deposits	Total	Demand deposits	Term deposits	Total
Financial institutions	10,709	19,875	30,584	30,502	23,672	54,174
Banks	6,000	12,296	18,297	1,765	14,244	16,009
Other financial institutions	4,708	7,579	12,287	28,737	9,428	38,165
Non financial institutions	69,629	33,958	103,587	60,503	30,152	90,655
Public non financial corporations	11,477	13,351	24,828	8,235	10,360	18,595
Other financial corporations	58,153	20,606	78,759	52,268	19,792	72,060
Privately owned enterprises - domestic	53,893	16,798	70,691	46,819	15,760	62,579
Entrepreneurs	1,063	2	1,065	1,321	12	1,333
Foreign enterprises	3,197	3,806	7,003	4,128	4,020	8,148
General Government	18,122	28,111	46,233	21,119	28,784	49,903
Central government	6,184	4,507	10,690	6,856	5,651	12,507
Agencies and institutions of central Government	6,356	6,339	12,695	7,851	5,744	13,595
Local Government - Municipalities	1,843	186	2,029	1,482	219	1,701
Government funds	3,739	17,079	20,818	4,930	17,170	22,100
Private citizens	40,064	39,211	79,275	43,809	49,680	93,489
Non profit organizations	5,089	171	5,260	5,615	243	5,858
Other	7,886	371	8,257	8,006	1,423	9,429
TOTAL	151,498	121,696	273,194	169,554	133,954	303,508

In the maturity structure of total deposits, demand deposits and term deposits contributed 56% and 44%, respectively, a dominating item in the latter being term deposits of up to one year (with maturity of up to 3 months and 1 year).

Demand deposits amounted to EUR 169.6 million, showing a fall of 12% as of 2004 year-end, whereas term deposits grew by 10%, amounting to EUR 134 million.

The sectoral structure changed in favour of deposits by private citizens. To wit, deposits by non-financial institutions (enterprises and public organisations) were dominating until February, but their contribution at end-March fell to 30%, and deposits by private citizens made up 31% of total deposits.

The main contributors in the structure of these deposits were deposits by privately owned enterprises of EUR 62.6 million at the end of the year, thus making up 69% and 21% of deposits by non-financial institutions and total deposits, respectively.

Deposits by public non-financial institutions (state owned enterprises and publicly owned enterprises) at end-February were 25% lower than at the year-end 2004, and the fall was due to a decrease in deposits by public owned enterprises of 63%, whereas deposits by state owned enterprises increased by 5.6%.

A downtrend in deposits by the corporate sector continued in the reporting period, amounting to EUR 78.4 million at end-March, which is 8% less than in the previous year. The fall was primarily due to a decrease in deposits by privately owned enterprises of 11.5%. The contribution of these deposits to total deposits by the corporate sector was 80%. Deposits by privately owned enterprises of EUR 14.5 million and a 18% contribution to total deposits by this sector were 5.6% higher than at 2004 year-end, while deposits by entrepreneurs grew by 25%.

The maturity structure of deposits by the corporate sector shows the dominant contribution of demand deposits, 68%.

Deposits by general Government amounted to EUR 50 million, 8% more than the previous year. The increase was due to a growth in deposits by the central Government of 17%, primarily due to an uptrend in demand deposits. An increase was also recorded with deposits by agencies and institutions of the central Government of 7% and deposits by state funds of 6%, while deposits by municipalities fell by 16%.

After a fall in deposits by banks and financial institutions in the first two months of the year, a substantial growth was recorded in March, reaching the level of EUR 54 million or 77% more than in 2004. This was because of the growth in deposits by domestic financial institutions induced by the privatisation of Telecom Montenegro.

Deposits by private citizens continued their uptrend amounting to EUR 93.5 million at end-March, and making up 31% of total deposits.

Banks' borrowings (short-term and other borrowings) fluctuated slightly during the reporting quarter, amounting to EUR 61 million at the end of March.

Other banks' liabilities totalled EUR 18.4 million, thus representing 4% of total banks' liabilities.

The total capital of banks increased to EUR 92.2 million and was 1.6% larger than at 2004 year-end. At the same time, capital and reserves were 1.2%, but the overall financial result of banks was positive, EUR 1.5 million.

2.4. Monetary Accounts

Net foreign assets⁶ amounted to EUR –17.8 million. This negative amount was the result of banks' claims on non-residents being larger than banks' liabilities to non-residents. This movement has characterized the banking sector since February 2004 when the aforementioned claims started growing faster than the liabilities. To wit, the average monthly increase rates of claims on non-residents and liabilities to non-residents were 1% and 6%, respectively. During the reporting quarter, claims recorded a fall in January and February, and a growth in March, and the average monthly growth rate was 7%, whereas liabilities fell only in January, and the average monthly rate of increase for the three-month period was 4%.

Claims on non-residents of EUR 73 million were 18% higher than at end-2004, and the annual increase rate was 40%. The increase at end-march 2005 was due to the growth in deposits by domestic banks with

foreign banks which reached EUR 54.7 million or being 65% and 24% higher than at the end of 2004 and the corresponding month in 2004. Besides the increase in deposits with foreign banks, claims of domestic banks on non-residents for loans granted also grew, amounting to EUR 1.8 million at end-March or 73% more than at end-2004, whereby one bank granted 95% of total loans granted to non-residents. The main beneficiaries of these loans were foreign companies (95.4%).

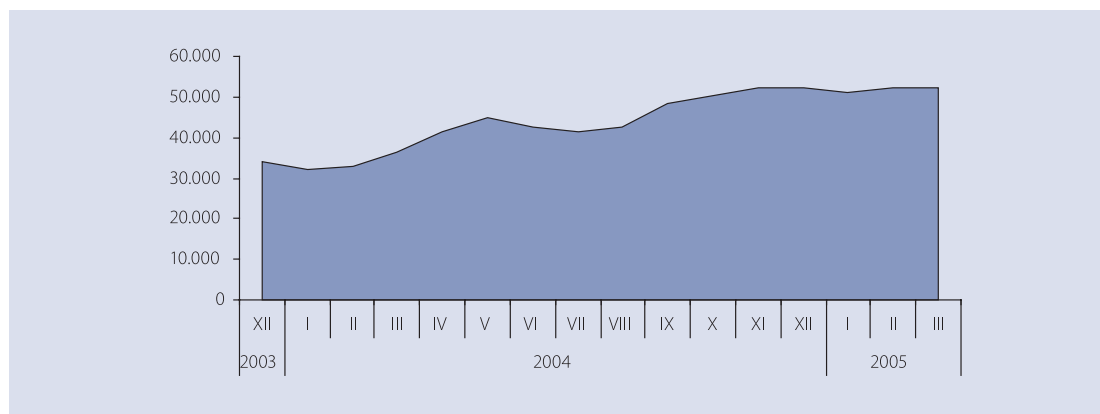
Banks' liabilities to non-residents reached EUR 91 million at the end of the reporting period, which was 13% more than at the previous year-end, and the annual increase rate was 55%. At the same time, deposits by non-residents grew 37% and 74% in relation to 2004 year-end and the corresponding month of 2004. Banks' borrowing from foreign banks/financial institutions was EUR 52.4 million, being the same as the year before, and the annual rate of increase was 43%.

Table 2.7.
Monetary accounts, December 2003 – March 2005, EUR thousand

Description/Period	2003	2004				2005		
	XII	III	VI	IX	XII	I	II	III
Net foreign assets	13.165	-6.404	-28.033	-5.552	-18.655	-20.159	-29.590	-17.875
Claims on non-residents	56.936	52.448	46.396	71.474	61.974	59.919	56.881	73.264
Liabilities to non-residents	43.771	58.852	74.429	77.026	80.629	80.078	86.471	91.139
Net domestic assets	163.433	176.180	200.557	201.292	235.960	224.377	241.013	255.508
<i>Claims on the central bank</i>	<i>231.660</i>	<i>246.620</i>	<i>278.013</i>	<i>279.031</i>	<i>319.420</i>	<i>310.835</i>	<i>327.064</i>	<i>340.085</i>
Net claims on central Government	36.089	32.406	34.578	44.094	40.185	36.219	39.697	39.953
Claims on other sectors	5.664	2.941	6.294	-6.003	912	-7.598	-3.417	-4.193
Liabilities to the central bank	189.907	211.273	237.141	240.940	278.323	282.214	290.784	304.325
<i>Other items (net)</i>	<i>-68.227</i>	<i>-70.440</i>	<i>-77.456</i>	<i>-77.739</i>	<i>-83.460</i>	<i>-86.458</i>	<i>-86.051</i>	<i>-84.577</i>
Liabilities included in money supply	176.621	169.971	172.509	195.719	217.253	204.218	211.424	237.634
Deposits included in money supply	176.621	169.036	172.509	195.719	217.253	204.218	211.424	237.634
Transferable deposits	95.415	93.823	94.197	108.832	124.374	109.738	114.139	139.985
Term deposits	80.721	74.738	77.736	85.994	91.864	93.414	96.223	96.613
Securities other than shares included in money supply	0	935	0	0	0	0	0	0

⁶ Net foreign assets = claims on non-residents – liabilities to non-residents, in the country and abroad

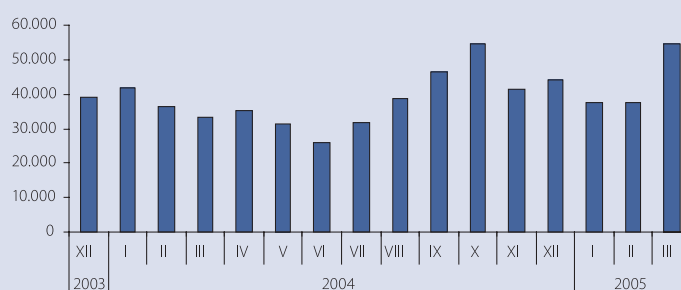
Graph 2.6.
Foreign borrowing, EUR thousand



Box 2.3. Banks depositing abroad

Banks deposits with foreign banks at the end of the respective three-month period amounted to EUR 54.7 million. The increase rate of these deposits as of end-2004 amounted to 24%, and the annual growth rate was 65%.

Graph 1.
Banks' deposits with foreign banks, EUR thousand

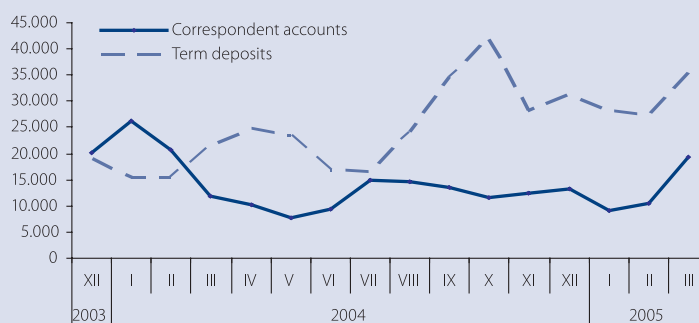


The structure of domestic banks' deposits with foreign banks shows the main contribution of term deposits, 65% of total deposits with foreign banks at the end of March (49% in 2003).

Table 1.
Structure of domestic banks' deposits abroad, in %

Description/Period	2003	2004		2005
	XII	III	XII	III
Correspondent account	51	36	30	35
Term deposits	49	64	70	65

Graph 2.
Banks deposits abroad, EUR thousand



One bank held 48% of total deposits abroad, and two of them held 78%. Other banks had relatively small amounts deposited abroad, mainly in correspondent accounts.

Interest rates at which banks put their deposits abroad are up by 3% annually. At the end of the respective quarter, effective interest rates on deposits by financial institutions with domestic banks ranged between 0.5% and 2.5% on demand deposits, that is, from 1% to 7% on term deposits up to three months, 2% - 7% on term deposits up to one year, and 6% - 11% on term deposits up to three years.

Banks' deposits placed abroad characterize all economies that have no appropriate instruments that would enable placement of funds in the country. Besides that, the Central Bank of Montenegro no longer accepts liquidity surpluses of domestic banks, and it pays interest on a part of allocated reserve requirements of banks.

Net domestic assets amounted to EUR 255.5 million, being 8% higher than at 2004 year-end, and with an annual increase rate of 45%. Within these assets, domestic loans and other items grew as of end-2004 by 6% and 1%, respectively.

Banks' net claims on the Central Bank amounted to EUR 39.9 million at the end of the three-month period, showing a fall of 1% and a growth of 23% in comparison with 2004 year-end and the same month of 2004. At the same time, banks' claims on the CBM for allocated reserve requirements and the settlement account totalled EUR 41.3 million, and banks' liabilities to the CBM (for the previously taken loans from the antecedent of the CBM) were EUR 1.4 million.

Net claims on the central Government and its agencies and institutions amounted to EUR -4.2 million due to the higher liabilities to the central Government. Claims on the central Government amounted to EUR 26.4 million that comprise of claims for purchased T-bills and granted loans. Liabilities to the central Government for received deposits grew 17% as of end-2004.

Banks' claims on other sectors⁷, which include claims for loans and shareholding, amounted to EUR 304 million, or 9% more than at end-2004.

Banks' liabilities included in the money supply amounted to EUR 237.6 million, thus being 9% higher than in 2004.

⁷ Other sectors include all resident sectors except the central Government and banks: other financial institutions, state funds, local government-municipalities, public and other non-financial corporations and other resident sector.

2.5. Deposits by Private Citizens

Deposits by private citizens were EUR 93.4 million, being 18% higher than at end-2004, and showing an annual increase rate of 97%.

For the first time, term deposits by private citizens were higher than demand deposits at end-March.

Therefore, the maturity structure changed in favour of term deposits which made up 53% of total deposits by private citizens (49% at end-2004).

At the end of the reporting period, term deposits by private citizens amounted to EUR 49.7 million or 27% more than at end-2004, and the annual increase rate was 86%.

As a part of term deposits, those with maturity of up to one year made up 69.9%, and over one year 30.1%. The first amounted to EUR 34.7 million, the same as at end-2004, and the latter totalled EUR 14.9 million, showing a growth of 237% in relation to the previous year-end.

Demand deposits amounted to EUR 43.8 million at the end of this quarter, growing 9% as of end-2004.

Graph 2.7.
Total deposits by private citizens, EUR thousand

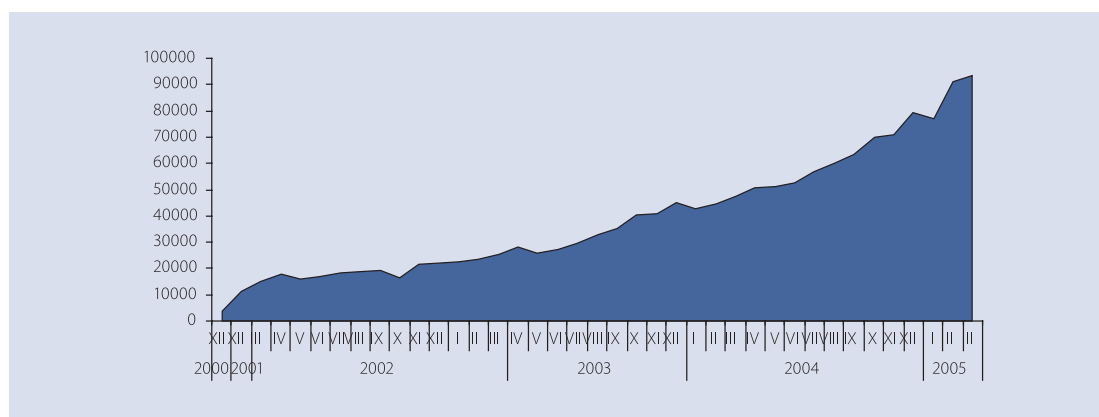
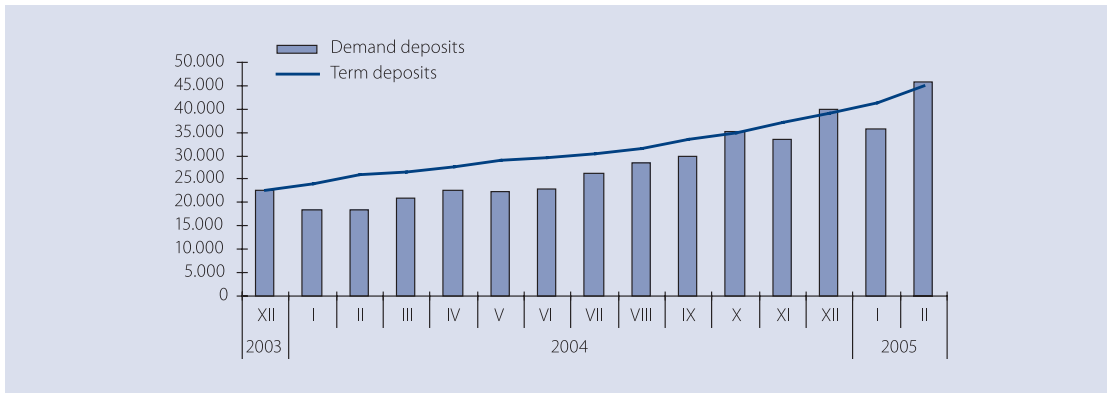


Table 2.8.
Deposits by private citizens, EUR thousand

Description/Period	2004	2005		
	XII	I	II	III
DEMAND DEPOSITS	40,064	35,621	45,877	43,809
TERM DEPOSITS	39,211	41,464	45,104	49,680
Up to 1 year	34,775	36,769	40,828	34,723
Over 1 year	4,433	4,722	4,267	14,952
TOTAL	79,275	77,085	90,981	93,489

Graph 2.8.
Deposits by private citizens, December 2003 – March 2005, EUR thousand



Box 2.4. Interest Rates on Deposits by Private Citizens

Nominal annual interest rates on demand deposits by private citizens ranged from 0.5% to 4% at end-March, and those on deposits with an agreed maturity in EUR were higher than interest rates on deposits with an agreed maturity in other currencies, ranging between 2% and 9% (from 1% to 6.5% on deposits with an agreed maturity in other currencies).

Table 1.
Nominal annual interest rates on deposits by private citizens, March 2005, in %, annually

On demand deposits	On deposits with an agreed maturity in EUR				On deposits with an agreed maturity in other currencies			
	up to 3 months	up to 1 year	up to 3 years	over 3 years	up to 3 months	up to 1 year	up to 3 years	over 3 years
0.5-4	2-5.5	2.7-8	3.1-9	4.5-9	1-4	1.8-6.5	2.5-6.5	3.5-6.5

Effective annual interest rates on demand deposits by private citizens varied between 0.5% and 3% at end-March. At the same time, interest rates on demand deposits with an agreed maturity in EUR and those on deposits with an agreed maturity in other currencies ranged from 2% to 12% and 1% to 6.54%, respectively.

Table 2.
Effective annual interest rates on deposits by private citizens, March 2005, in %, annually

On demand deposits	On deposits with an agreed maturity in EUR				On deposits with an agreed maturity in other currencies			
	up to 3 months	up to 1 year	up to 3 years	over 3 years	up to 3 months	up to 1 year	up to 3 years	over 3 years
0.5-3	2-6	2.7-12	3.1-12	4.5-9	1-4	2-6.54	3-6.51	3.5-6.5

Interest rates on deposits by private citizens remained the same as at 2004 year-end.

2.6. Banks' Reserve Requirements

Reserve requirement instruments used in the three-month period did not differ from those used at the previous year-end.

Deposits that make up the base for the calculation of reserve requirement oscillated between EUR 141.8 million and EUR 152 million, the average being EUR 146.8 million. At the same time, deposits that do not make up the base amounted to EUR 127.2 million, on average.

Applying the current reserve requirement rate banks allocated EUR 34.9 million as at 30/03/05, which is EUR 1.8 million or 5.4% more than as at 2004 year-end. (Annex B, Table 12)

The structure of allocated reserve requirements at the end of the reporting period shows that 44% was allocated to the reserve requirement

account in the country, 24% as T-bills, and 32% to the Central Bank of Montenegro's foreign account.

All banks used the opportunity to keep up to 25% of their allocated reserve requirements as T-bills at the end of the period.

Banks used reserve requirements for their liquidity in 9 days (one day in both January and February, and seven days in March). A lower level of the prescribed reserve requirement was recorded in one bank and for two days.

The Central Bank calculated and paid banks the interest on allocated reserve requirement funds to the amount of EUR 21,045.27.

Graph 2.9.
Allocated reserve requirements and deposits included in and excluded from the reserve requirement base, per account periods, in EUR thousand

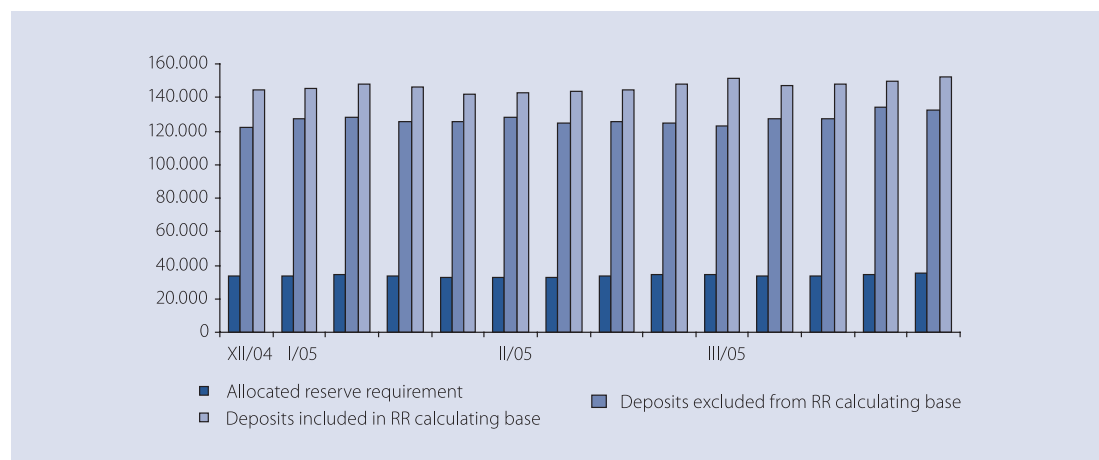


Table 2.9.
Structure of allocated reserve requirements at end-months, in %

Description/Period	XII/04	I/05	II/05	III/05
Reserve requirement account in the country	31	43	46	44
In T-bills	23	24	24	24
Reserve requirement in the CBM foreign account	46	33	30	32

2.7. Interest Rates

Minor changes in relation to the end of 2004 were recorded in interest rates on short-term loans and deposits with an agreed maturity in other currencies.

At end-March, nominal interest rates were at the same level as at end-2004, ranging from 3% to 36% on long-term loans, and between 7.8% and 11% on securities held to maturity.

Nominal interest rates vary significantly from bank to bank. While some banks charge the same interest to all their clients, others make a difference. Enterprises and entrepreneurs were granted short-term loans at the interest rates varying from 4% to 30%, the same as on loans granted to the Government and its bodies and organisations, and municipalities, whereas interest on short-term loans granted to private citizens ranged between 3% and 36%.

Nominal annual interest rates on demand deposits varied from 0.5% to 4%, on deposits with an agreed maturity in EUR from 1% to 11%, and those on deposits with an agreed maturity in other currencies from 1% to 6.5%. Moreover, maximal interest rates on deposits with an agreed maturity fell from 8% at end-2004 to 6.5% at the end of the reporting period.

Effective annual interest rates on short-term loans ranged at the end of the period from 3% to 48.4%, from 1.5% to 48.4% on long-term loans, and from 7.8% to 11% on securities held to maturity.

Effective annual interests payable were not significantly higher than nominal. The change as of end-2004 was recorded in maximal interest rate on deposits with an agreed maturity that fell from 8% to 6.54%.

Table 2.10.
Nominal interest rates, in %, annually

Description/Period	2004		2005					
	XII		I		II		III	
	min	max	min	max	min	max	min	max
Interests receivable								
Short-term loans	3	36	3	36	3	36	3	36
Long-term loans	1,5	36	1,5	36	1,5	36	1,5	36
Securities held to maturity – up to one year	8	11	7,8	11	7,8	11	7,8	11
Securities held to maturity – over one year	-	-	-	-	-	-	-	-
Interests payable								
Demand deposits	0,5	4	0,5	4	0,5	4	0,5	4
Deposits with an agreed maturity in EUR	0,8	11	1	11	1	11	1	11
Deposits with an agreed maturity in other currencies	1	8	1	8	1	6,5	1	6,5

Table 2.11.
Effective interest rates, in %, annually

Description/Period	2004		2005					
	XII		I		II		III	
	min	max	min	max	min	max	min	max
Interests receivable								
Short-term loans	3	79,4	3	79,38	3	86,27	3	48,4
Long-term loans	1,5	48,4	1,5	48,4	1,5	48,4	1,5	48,4
Securities held to maturity – up to one year	7,8	11	7,8	11	7,8	11	7,8	11
Securities held to maturity – over one year	-	-	-	-	-	-	-	-
Interests payable								
Demand deposits	0,5	4	0,5	4	0,5	4	0,5	4
Deposits with an agreed maturity in EUR	0,8	12	1	12	1	12	1	12
Deposits with an agreed maturity in other currencies	1	8	1	8	1	6,54	1	6,54

2.8. Micro-Credit Financial Institutions (MFI)

The balance sum of the two micro-credit financial institutions (MFIs) that operate in the Republic of Montenegro (Agroinvest and Alter Modus) amounted to EUR 14.6 million, being 4.6% higher than the year before. Agroinvest contributed 68% to the total balance sum of MFIs.

The main contributors to the MFIs assets were loans, EUR 13.3 million or no less than 91%. The loans grew during the first two months (0.4% and 0.8%), but recorded a fall in March of 3.6%. Of the total amount, Agroinvest granted 64%, and Alter modus 36%. The whole amount was granted to private citizens, of which EUR 13.2 million were net loans, and EUR 146 thousand were loan loss provisions.

The maturity structure of the loans granted shows that they were mainly short-term loans, between 82% and 86% during the first quarter.

The MFIs granted loans at the same interest rates as the year before. To wit, the nominal annual interest rate on short-term loans was 18%, ranging from 15% to 18% on long-term loans.

Effective annual interest rates on short-term loans varied between 31.5% and 39.48%, and those on long-term loans from 27.1% to 37.2%.

The MFIs cash assets amounted to EUR 1.1 million or 7.7% of total MFIs assets, whereas fixed assets and other assets totalled EUR 326 thousand or 2.2%.

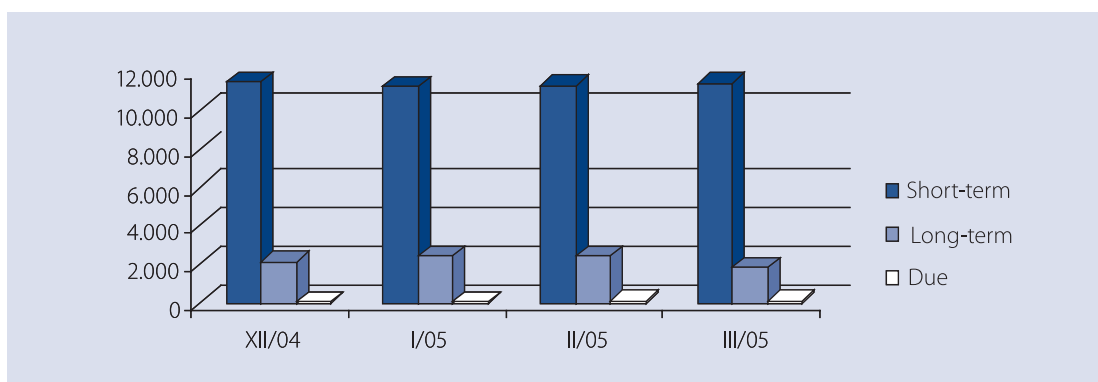
Table 2.12.
MFIs balance sum at end-months, EUR thousand

Description/Period	2004				2005		
	III	VI	IX	XII	III	II	III
Alter modus	3,458	3,782	4,255	4,262	4,305	4,451	4,783
Agroinvest	8,731	9,322	9,521	9,728	9,850	9,918	9,846
Total	12,189	13,104	13,776	13,990	14,155	14,369	14,629

Table 2.13.
Total MFIs loans, at end-months, EUR thousand

Description/Period	2004				2005		
	III	VI	IX	XII	III	II	III
Alter modus	3,206	3,685	3,739	4,237	4,183	4,338	4,784
Agroinvest	8,127	9,046	9,269	9,431	9,543	9,504	8,562
Total	11,333	12,731	13,008	13,668	13,726	13,842	13,346

Graph 2.10.
Structure of MFIs loans at end-months, EUR thousand



In the MFIs **liabilities**, borrowings amounted to EUR 5.5 million or 37% of total liabilities, while grants totalled EUR 269 thousand or 2%.

The MFIs total capital at the end of the reporting period amounted to EUR 8.3 million or 56% of total liabilities. Of this amount, EUR 4.1 million or 50% was donated capital, EUR 1.6 million or 19% donations, while EUR 2.6 million or 31% was undistributed profit (from the previous and the current period). Also, the MFIs made profits at the end of the three-month period of EUR 382 thousand.

3. FINANCIAL MARKETS

3.1. Money market

Activities in the money market in Montenegro in March were restricted to the T-bills primary market. Seven auctions were held in this month – one auction of 28-day T-bills and 182-day T-bills, two auctions of 56-day T-bills, and three auctions of 91-day T-bills. The total value of available T-bills was EUR 31.5 million, of which EUR 30.3 million worth of T-bills were sold. The Government owed the buyers of these T-bills total interest of EUR 488,071.99.

3.1.1. Auctions of 28-day T-bills

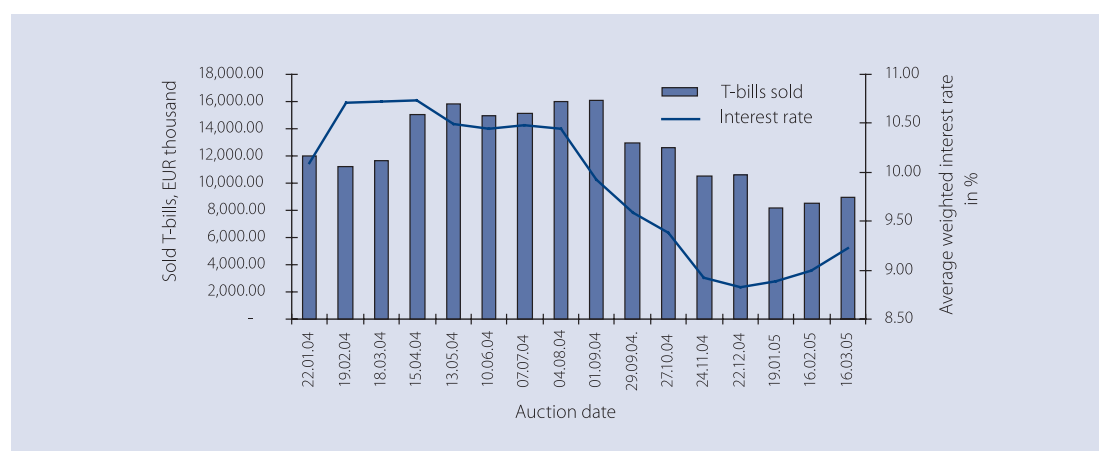
The 47th auction of 28-day T-bills was held in March. The offered amount was EUR 9 million, and the demand was EUR 9.7 million, so the entire amount was sold. Six domestic banks, one investment fund, two non-financial legal entities, and two private citizens participated in the auction.

The amount of 28-day T-bills sold recorded a slight growth as of the beginning of 2005, but it is still far below that of 2004, especially in September of that year when the highest amount was auctioned since the first issue of these T-bills.

The average weighted interest rate on these T-bills in March was 9.22%. A notable fall was recorded compared to the third quarter of 2004 and until the end of that year. However, the average weighted interest rate has shown a slight growth since the beginning of 2005.

The Government owed the buyers of 28-day T-bills the interest of EUR 64,090.00.

Graph 3.1.
Sold amounts and interest rates on 28-day T-bills



Source: Central Bank of Montenegro

3.1.2. Auctions of 56-day T-bills

Two auctions of 56-day T-bills were held in March (40th and 41st), and the offered amount was EUR 11 million, which was somewhat lower than the demand, EUR 11.4 million. Fifteen banks, both domestic and foreign, two insurance companies, one stock exchange, one non-financial legal entity, a private citizen, and one investment fund participated in these auctions.

The amount of sold 56-day T-bills recorded a remarkable growth in comparison with January and February in both 2004 and 2005.

The average weighted interest rates achieved in the auctions were 9.35% and 9.38% in the 40th and 41st auction, respectively. A notable downtrend in these interest rates was present from the third quarter of 2004 until the end of the year, but they started to grow again at the beginning of 2005.

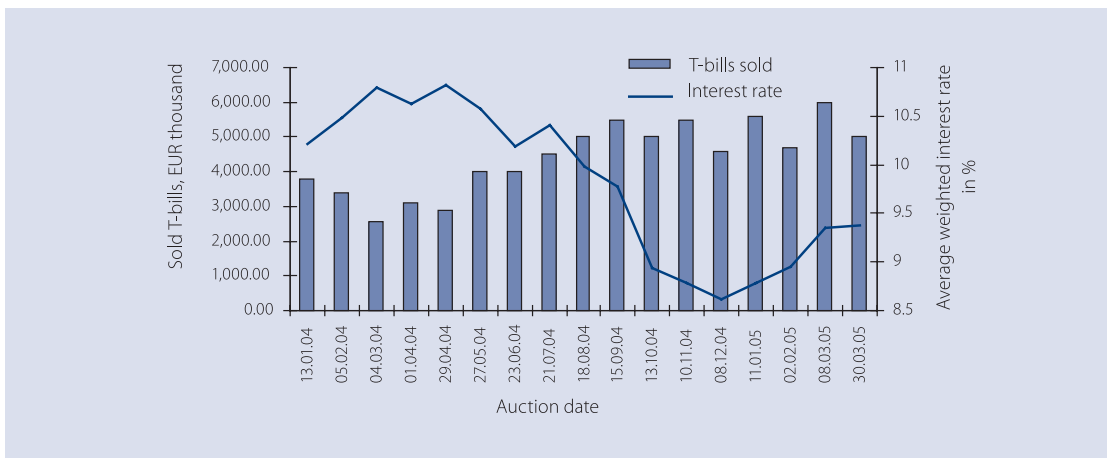
The Government owed the buyers of 56-day T-bills interest of EUR 157,881.33.

3.1.3. Auctions of 91-day T-bills

Three auctions of 91-day T-bills were held in March (10th, 11th, and 12th), and the amount issued was EUR 10.5 million, whereas the amount sold was EUR 9.3 million. Five banks, both domestic and foreign, one foreign financial organisation, three domestic private citizens, one domestic non-financial legal entity, and one insurance company participated in these auctions. The level of these T-bills sold in March recorded a growth in comparison with January, while there were no auctions of 91-day T-bills in February.

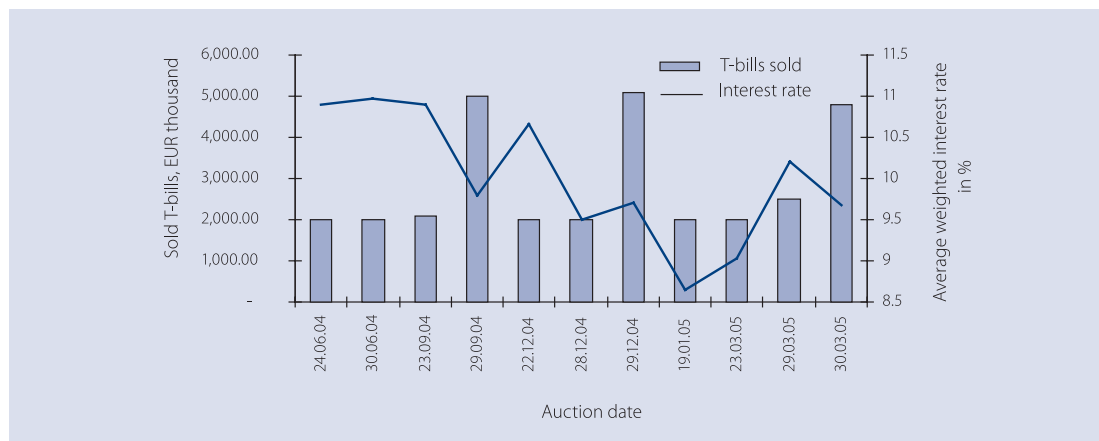
The achieved weighted interest rates amounted to 9.03% in the 10th, 10.2% in the 11th, and 9.68% in the 12th auction. The Government owed the buyers of 91-day T-bills interest of 222,812.12.

Graph 3.2.
Sold amounts and interest rates on 56-day T-bills



Source: Central Bank of Montenegro

Graph 3.3.
Sold amounts and interest rates on 91-day T-bills



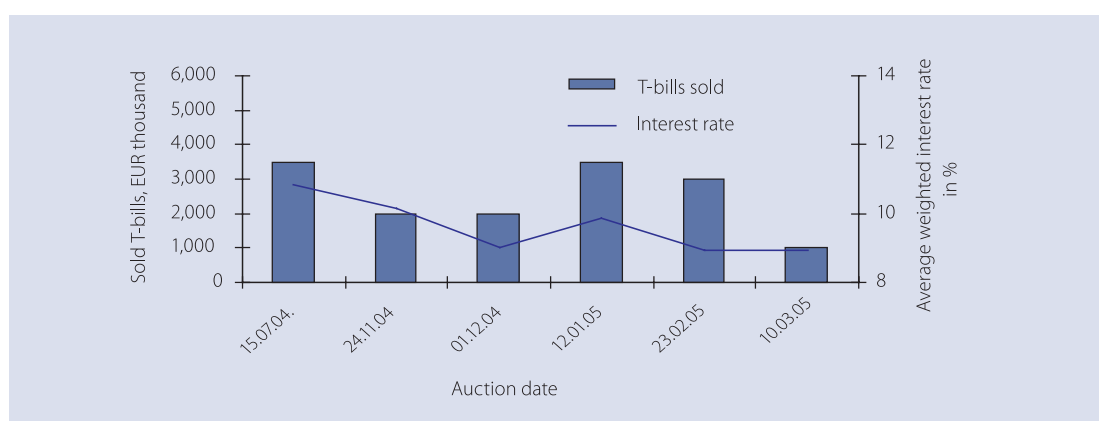
Source: Central Bank of Montenegro

3.1.4. Auctions of 182-day T-bills

The seventh auction of 182-day T-bills was held in March, with EUR 1 million being offered and sold. Only one foreign bank participated in the auction. The level of 182-day T-bills sold in this month recorded a fall in relation to the previous month, and was also the lowest level since the first issue of these T-bills.

The average weighted interest rate achieved in this auction was the same as in February, 8.95%. The Government owed the buyers of 182-day T-bills the interest of EUR 43,288.54.

Graph 3.4.
Sold amounts and interest rates on 182-day T-bills



Source: Central Bank of Montenegro

3.2. Capital market

The turnover in both Montenegrin stock exchanges amounted to EUR 43.2 million, which represents a growth of 2.810,9% in comparison with the same period the year before. The number of transactions performed was 10,713 or 141.2% higher than in the comparative period.

The reason for such an increase is the privatisation of Telecom Montenegro whose shares were traded to the amount of EUR 37.44 million, which contributed 86.7% to total turnover in the stock exchanges in the reporting period. The turnover in both stock exchanges was achieved in both the primary and the secondary market, but the value of the primary market turnover was only EUR 11.96 thousand.

The turnover was mainly achieved through the trade of common shares, EUR 40.6 million or 94%, being the shares of Telecom Montenegro.

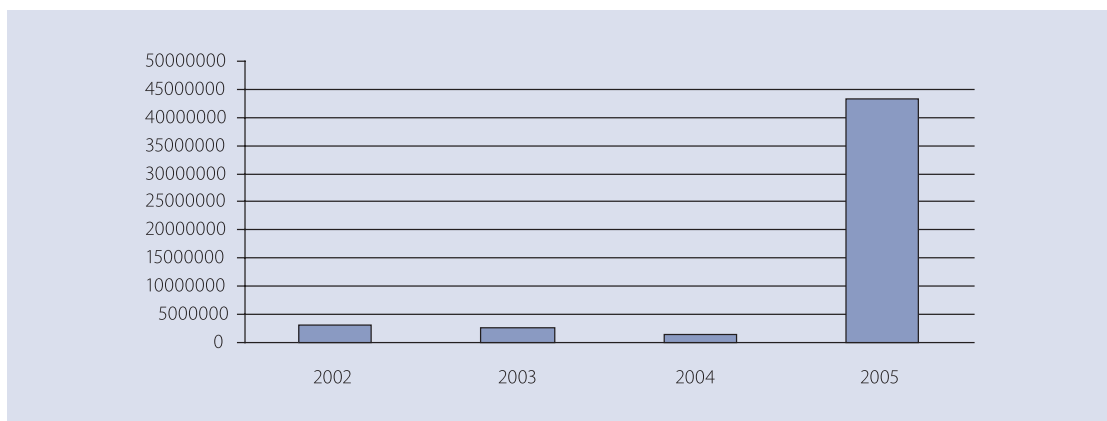
3.2.1. Montenegroberza stock exchange

The turnover in this stock exchange in March amounted to EUR 3.4 million and was achieved through 3,919 transactions, being EUR 1.01 million higher than in the corresponding month in 2004, and showing an increase of 241.2%.

A smaller portion of the turnover was achieved in the exchange market, EUR 1.4 million, with the purchase of shares from the A list (EUR 1.2 million) and the B list (EUR 194 thousand). The total turnover in the free market amounted to EUR 2.01 million, of which the largest contributors came from bonds, EUR 766 thousand, followed by common shares, EUR (EUR 729 thousand), shares of state funds, EUR 356 thousand, and shares of privatisation-investment funds EUR 155 thousand.

The MOSTE index recorded a growth of 22.9 index points from that of end-February, mainly due an increase in the prices of shares of Lovćen Insurance a.d. Podgorica, Coal Mines A.D. Pljevlja and HLT Fund. Thus the index of 123.644 at end-February rose to 146.5896 at end-March.

Graph 3.5.
Value of achieved turnover in Montenegrin stock exchanges in the first quarters (2002 – 2005)



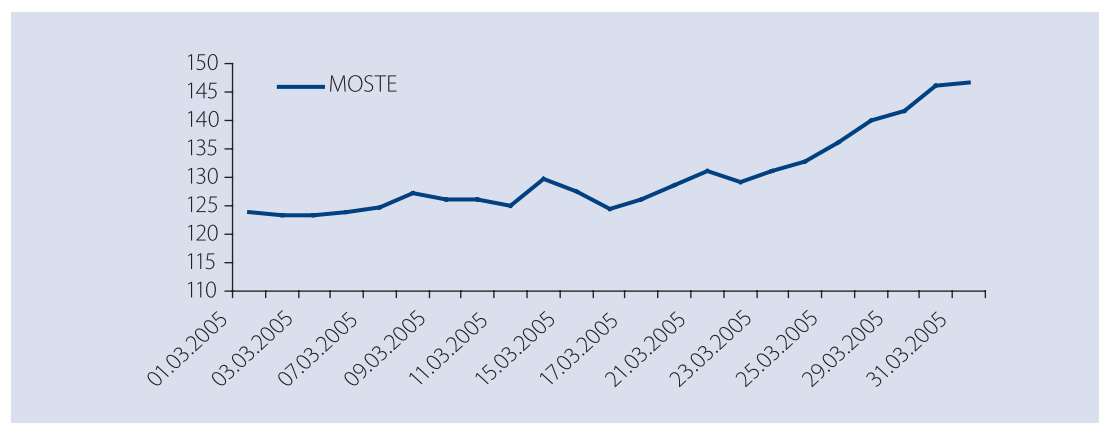
Source: Montenegroberza and Nex Montenegro stock exchanges

Table 3.1.
Total turnover and transactions achieved in Montenegroberza stock exchange in the period
January – March 2005

Month	Value of turnover (EUR)			Structure of total turnover by market material					
	Primary	Secondary	Total	Shares	% contribution of shares	Bonds	% contribution of bonds	Shares of investment funds	% contribution of special investment units
January	0	605,009.60	605,009.60	327,305.44	54.1	63,227.81	10.5	214,76..35	35.5
February	0	1,161,632.36	1,161,632.36	566,304.93	48.8	218,951.63	18.8	376,375.80	32.4
March	11,964.19	3,430,230.80	3,442,194.99	2,521,780.85	73.3	765,730.04	22.2	154,684.1	4.5
Total	11,964.19	5,196,872.76	5,208,836.95	3,415,391.22	65.6	1,047,909.84	20.1	745,536.25	14.3
Average	3,988.06	1,732,290.92	1,736,278.98	1,138,463.74	65.6	349,303.28	20.1	248,512.08	14.3

Source: Montenegroberza stock exchange

Graph 3.6.
MOSTE index in March



Source Montenegroberza stock exchange

3.2.2. NEX Montenegro stock exchange

Turnover in this stock exchange of EUR 39.7 million in March was achieved through 6,794 transactions in the secondary market (EUR 15.7 million more than in the same month of 2004). Compared to the same three-month period of the previous year (EUR 475 thousand), the turnover increased by 8,271.7%, induced by the increased trade of shares of Telecom Montenegro quoted in this stock exchange.

The turnover in the exchange market and the free market amounted to EUR 37.4 million and EUR 2.3 million, respectively. The entire turnover in

the exchange market was achieved through the sale of shares of Telecom Montenegro. With the Government of Montenegro's subvention of EUR 0.30 per share, the share price reached the value of EUR 2,5, which represents an increase of 150% in relation to end-April 2002 when one share of Telecom Montenegro was EUR 1. The largest turnover in the free market was achieved through the trade of common shares, EUR 1,008,277, followed by the sale of shares of state funds, EUR 760,238, trade of bonds, EUR 315,306, and trade of shares of privatisation funds of EUR 219,751.

Table 3.2.
Total turnover and transactions achieved in NEX Montenegro stock exchange in the period
January – March 2005

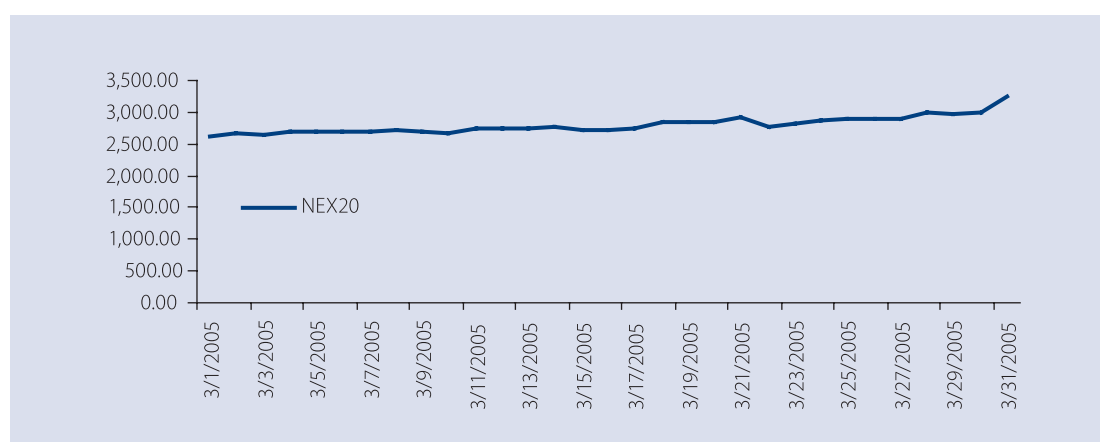
Month	Value of turnover (EUR)			Structure of total turnover by market material					
	Primary	Secondary	Total	Shares	% contribution of shares	Bonds	% contribution of bonds	Shares of investment funds	% contribution of special investment units
January	0	1.886.401	1.886.401	1.455.598	77,2	268.489	14,2	162.314	8,6
February	0	9.708.671	9.708.671	7.751.514	79,8	1.759.526	18,1	197.631	2,0
March	0	39.747.684	39.747.684	39.212.627	98,7	315.306	0,8	219.751	0,6
Total	0	51.342.756	51.342.756	48.419.739	94,3	2.343.321	4,6	579.696	1,1
Average		17.114.252	17.114.252	16.139.913	94,3	781.107	4,6	193.232	1,1

Source: NEX Montenegro stock exchange

The NEX20 index grew by 628,7 points or 24.05% from the level of end-February, reaching the value of 3,242.00 points at end-March, mainly due to an increase in the prices of shares of the Electric Power Industry of Montenegro A.D. Nikšić and Port Bar A.D. Bar.

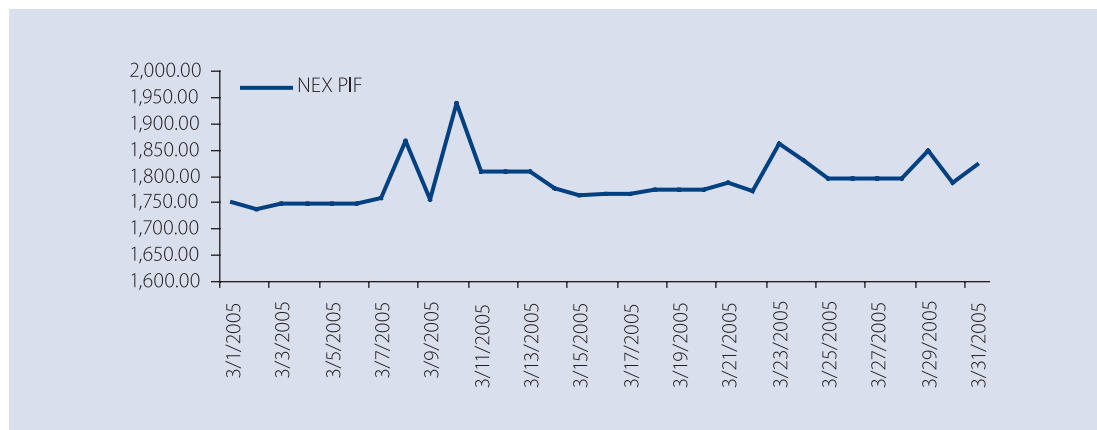
The NEX PIF index also recorded a growth, 111.85 points or 6.53% from that of end-February, reaching the value of 1.823,59 points at end-March, primarily due an increase in the prices of shares of HLT Fund, and the funds Atlasmont, MIG, Monet, and Trend.

Graph 3.7.
NEX 20 index in March



Source: NEX Montenegro stock exchange

Graph 3.8.
NEX PIF index in March



Source: NEX Montenegro stock exchange

Box 3.1. Potential Effects of the Passing of New Rules for the Trading and Takeover of Companies

At the beginning of 2005, the Securities Commission passed the Rules of Block Trade⁸ and Rules of A Company Takeover⁹. The Rules of Block Trade allow an owner of a larger number of shares in enterprises to sell them independently and making an agreement with a buyer. Pursuant to the Rules, block shares are formed if the value of trade is at least EUR 500,000, or if they represent not less than 20 per cent of total enterprise ownership. In accordance with these Rules, an agreement made off the exchange between a seller and a buyer will be legalized, which is not unusual, but may be a problem for the development of trade in developing stock exchanges.

Although the actual trade must be performed in a stock exchange, the Rules put smaller shareholders in an unfavourable position in relation to the sellers of block shares, and the buyer purchasing the block of shares. When the seller and the buyer reach an agreement on trade, it will be performed in the stock exchange, but only formally – the supply meeting the demand, which is their essential role, but stock exchanges will lose from these transactions. Smaller shareholders could offer their shares even at a lower price, but the buyer will not be obliged to purchase them. These Rules enable a buyer to purchase a larger quantity of shares from the special exchange list. At the same time, other buyers willing to offer a higher price for the same shares will not be able to compete because the deal has already been closed. These Rules were passed to encourage privatisation, but at the same time their provisions call into question the exchange trading itself, as well as its further development, especially when taking into account that the increase in trading in the exchange was primarily led by the privatisation process.

⁸ "Official Gazette of RM", no. 11/05

⁹ "Official Gazette of RM", no. 12/05

In order to prevent large buyers from taking over a company in two block trades without the obligation to make an offer to smaller shareholders, the Rules on a Company Takeover were enacted to be some kind of balance to the previously mentioned Rules. Pursuant to the Rules on a Company Takeover, any one who buys at least 40 per cent of shares of an enterprise is obliged to offer to buy all minority shares at the highest price offered for the aforementioned 40 per cent of shares. By deciding to do so, the buyer must purchase a certain amount of shares from all shareholders and at the same price. However, the Rules allow the buying of over 20% of block shares, but if the buyer does not exceed the threshold of 40%, he does not have to follow the aforementioned provision. However, this certainly is an unfavourable provision for minority shareholders.

In addition, the takeover procedure must be performed in a stock exchange. However, it is a one-off transaction, but the fact is that demand for shares of enterprises in which a sole owner possesses 70% and more of capital share inevitably falls. The passed Rules enable the concentration of capital (reverse split), which is mainly performed with a view to managing the company, although some of the reverse split procedures are done with a view to selling the majority block shares after any price increase. In both cases there could be some adverse effects on future trading of shares in stock exchanges in Montenegro – a reduced trading of majority block shares in the first case, and encouraging speculative transactions in the second case. Speculative transactions usually artificially induce an increase in the prices of shares before their takeover, and cause their fall afterwards. This introduces certain elements of uncertainty in the capital market that could have adverse effects on its development, especially if these are emerging markets. These Rules will have a great influence on the trade of shares of enterprises undergoing the privatisation process. However, trade of new shares of enterprises that are not being privatised gives hope that exchange trading will continue to develop. Nevertheless, it should also been taken into account that the aforementioned rules will also affect the trading of these shares, thus making them a potential factor in any capital market distortions.

4. FISCAL DEVELOPMENTS

4.1. Budgetary Review

Total **budgetary revenues** in the reporting period amounted to EUR 81.8 million or 16.5% of planned funds for the current year, but compared to the same period of 2004 they are 7.3% lower.

The structure of budgetary revenues shows that EUR 74.5 million or 91.8% were revenues from regular operations, which represented 17.4% of planned funds for this year, and a growth of 9.3% in relation to the comparative period. There were no revenues from donations, sale of property and loan repayments, while revenues from capital were only EUR 54 thousand. Borrowings and loans amounted to EUR 6.6 million, which makes up 8.2% of total budgetary revenues, and a fall of 50.6%.

Regular budgetary revenues come mainly from taxes, and they amounted to EUR 69.8 million or 93.8% of regular revenues in the reporting period, and 17.4% of the plan for this year. They grew by 14.3% in relation to the comparative period, mainly due to the revenues from VAT and excise duties to the amount of EUR 45.5 million or 15.9% more. Revenues from VAT made up 47.6% of total revenues from taxes and amounted to EUR 33.3 million, which is 19.9% more, and those from excise duties totalled EUR 12.2 million or 6.4% more. In the structure of the latter, excise duties on imported goods grew by 8.8% and amounted to EUR 10.1 million, while those paid in production fell by 3.7%. In addition, revenues from personal income tax and corporation tax also increased. The first grew by 1.2%, which points to improved collection from tax payers after the implementation of the reduced tax rates and payroll contributions of 10% (5% as of 1 July and 5% as of 1 December 2004). Revenues from corporation tax recorded a growth of 60.4% or 26.3% of planned funds for the current year, which is the result of the reduced tax rate from 15% and 20% to 9% as of 1 January 2005 (Amendments to the Law on Profit Tax for Legal Entities, "Official Gazette of RM", no. 65/01 and 80/04). This shows that the reduction of interest rates had no effect on budgetary revenues, but on the contrary, it induced economic

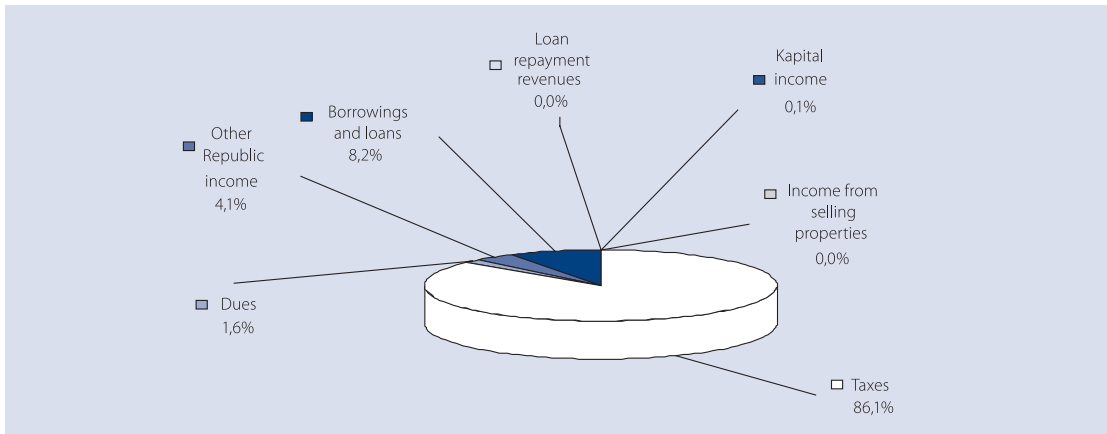
activities, declaration of profit, higher employment, and transition of grey economy to legal flows. Revenue from tax on international trade and transactions rose by 2.3%, whereby revenue from customs duties increased by 3.7%, and those from transit fell by 13.1%. Other taxes amounted to EUR 0.6 million. On the other hand, revenues from property tax and turnover tax fell by 24.5% due to the implementation of the Law on Property Tax ("Official Gazette of RM", no. 69/03) as of January 2004, prescribing the reduction of the tax base by introducing tax relief on tax payers whereby a tax payer, when buying an apartment or a house, is relieved from tax on 20m² for each household member, and a part of the revenues is realigned since newly built objects are taxed in accordance with the Law on Value Added Tax. Other republic income fell by 24.7% in comparison with the same period the year before, amounting to EUR 3.3 million or 10.1% of planned funds for 2005.

Revenues from dues amounted to EUR 1.3 million, being 11.6% lower, while revenues from tourist tax were only EUR 2 thousand or 1.4% of total revenues from dues, showing a fall of 23.4% in comparison with the same three-month period of 2004, which is normal for this time of year.

Total **budgetary expenditure** in this period amounted to EUR 73.6 million (9.2% less than revenues) or 15% of planned expenditure for 2005, being 14.8% lower in relation to the comparative period.

In the structure of total expenditure a dominant contributor was regular budgetary expenditure with EUR 62.5 million or 84.9%, which is 7.5% less than in the comparative period. Debt repayments amounted to EUR 6.3 million or 8.5% of total expenditure, making up 15% of planned expenditure for the current year. Borrowings and loans were EUR 800 thousand or 11.5% of the plan, which is a fall of 31.6%. Budgetary reserves (constant and current) were EUR 4.1 million or 32.6% of the plan. Expenditure for social benefits totalled EUR 26.3 million, which is

Graph 4.1.
Structure of budgetary revenues in the reporting period



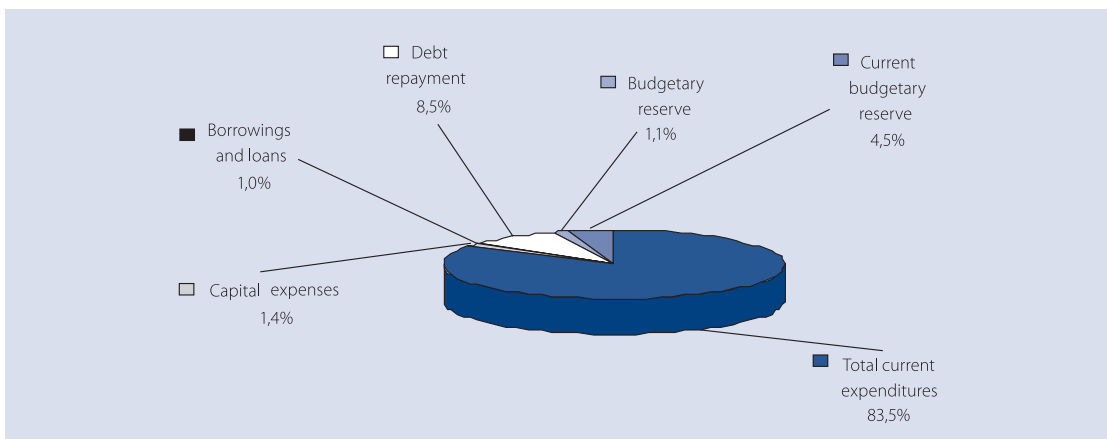
7% more than in the comparative period. Subventions fell considerably, 60.7%, amounting to EUR 500 thousand. Capital expenditure was EUR 1 million or 3.6% of the plan, being 37.6% lower. Interest paid in this period amounted to EUR 2.3 million or 11.9% of planned funds to be allocated for this year. Expenditure for material and services was 6.5% higher, amounting to EUR 8.3 million or 14.3% of the plan for 2005.

Expenditure for gross salaries was EUR 21.6 million or 13.6% of the plan, being only 1% higher than in the comparative period. The contribution of net salaries to gross salaries was 72.1% or EUR 15.6 million. In this period, EUR 2.2 million was allocated for contributions, which makes

up 10.4% of gross salaries, and personal income tax amounted to EUR 3.3 million or 15.2% of gross salaries. The contribution of gross salaries to regular budgetary expenditure and total expenditure was 34.6% and 29.3%, respectively.

Observing a **surplus/deficit** as the difference between total revenues reduced for loans and borrowings and total expenditure reduced for loans and borrowings and principal repayment, the budget of the Republic recorded a surplus in the reporting period of EUR 7.9 million (Methodology for the Calculation of Surplus/Deficit, "Official Gazette of RM", no. 40/01). (Annex C, Table 13)

Graph 4.2.
Structure of budgetary expenditure in the reporting period



4.2. Review of budgetary funds

The Pension and Disability Fund received revenues of EUR 35.1 million, which is 2.5% less than in the comparative period. In the structure of total revenues, revenues from contributions made up 50.5% or EUR 17.7 million, being 11.9% lower than in the comparative period. Revenue from legal obligation of the Budget (contributions and transfers) amounted to EUR 13 million, which makes up 37% of total revenues. Other revenues were EUR 0.1 million or 0.3% of total revenues, and they were considerably lower than in the same three-month period of 2004, 70.8%. The Fund received revenues from the sale of its share capital, on the stock exchange, and from the sale of Telecom Montenegro to the amount of EUR 1.6 million or 4.4% of total revenues, and funds from loans amounted to EUR 2.7 million.

Expenditure to this Fund in the first quarter of the year amounted to EUR 35.1 million, of which EUR 28.6 million or 81.4% was for pensions, which is 6.9% more than in the comparative period. The cumulative increase in pensions of 12.2% (7.4% as of 1 December 2003, 1.4% as of 1 July 2004, and 3.5% as of 1 January 2005) pursuant to the Amended Law on Pension and Disability Insurance ("Official Gazette of RM", no. 39/04) and the Decision on the Adjustments of Pensions ("Official Gazette of RM", no. 57/04 and 6/05), as well as the increased number of pensioners additionally burdened the Pension and Disability Fund.

Thus, the Fund recorded a deficit of EUR 8 thousand in the reporting period. Outstanding liabilities were EUR 44.9 million, including EUR 23.2 million for unpaid pensions (one and a half pension per pensioner).

The estimated revenues of the **Health Care Fund** amounted to EUR 18.3 million, which is 5% less than in the comparative period. Revenues from the corporate sector contributions were EUR 8.8 million or 47.9% of total revenues, and 5.3% lower than in the same three-month period of 2004. The contributions from the non-corporate sector made up 24.2% or EUR 4.4 million. The contribution of the Pension and Disability Fund was EUR 3.7 million or 20.3%, which is 8.5% less than in the first quarter of the previous year, whereas revenues from the Budget amounted to EUR 1.1 million or 5.8% of total revenues. Other revenues fell considerably, amounting merely to EUR 35 thousand, which is 83.1% less than in the comparative period. Expenditure totalled EUR 20.8 million, of which the main contributor was expenditure for regular activities and medicines, 96.3%. The Fund ran a deficit in this period of EUR 2.5 million.

The deficit analysis does not include outstanding liabilities.

The Employment Bureau of the Republic of Montenegro received revenues of EUR 3.7 million, of which the main contributors were revenues from the sale of shares of EUR 1.3 million or 36.6%. Expenditure to the Bureau was EUR 2.4 million, so a surplus of EUR 1.2 million was recorded in the reporting period. It should be taken into account that the Bureau's outstanding liabilities amounted to EUR 6.3 million, of which EUR 1.5 million were liabilities from the Bureau's assets, and EUR 4.7 million from the assets provided by the Budget of the Government of the Republic of Montenegro for financial provision of the unemployed and trainees.

The Development Fund received revenues in this period to the amount of EUR 100 thousand, and expenditure to the fund were EUR 78 thousand, resulting in the surplus EUR 22 thousand. (Annex C, Table 13a).

5. EXTERNAL DEVELOPMENTS

Positive developments marked the first quarter of 2005. The balance of payments current account deficit fell by 53.7% in relation to the comparative period (from EUR 75 million to EUR 35 million). If foreign assistance were excluded, then the current account deficit would be EUR 42.5 million or 47% less than the year before.

The contribution of foreign trade to GDP was 76%, i.e. 89% if the service sector were to be included. The import/export ratio improved in comparison with the same three-year period of 2004 amounting to some 58%, being 11 index points higher (47% in 2004).

According to interim data (source: Customs declarations), a deficit in the trade part of the balance of payments declined by 34.5%, that in the sub-balance of services by 68.2%, while the surpluses in the sub-balance of factor income and the sub-balance of transfer fell by 35.7% and 45.1%, respectively.

The decline in the trade element reduced the imbalance in Montenegro's foreign trade. The main reasons were positive developments in agriculture, as the result of efforts made by the Ministry, a reduced import of consumer goods, and less activity in the construction industry, which is explained in more details in the subchapter Visible Trade.

Services recorded a growth in revenues of EUR 4.4 million or 27%, mainly due to the increased revenues in transportation and tourism. However, the final balance of services is negative and amounted to EUR 1.5 million, which is still EUR 3.3 million less than the year before (EUR 4.9 million).

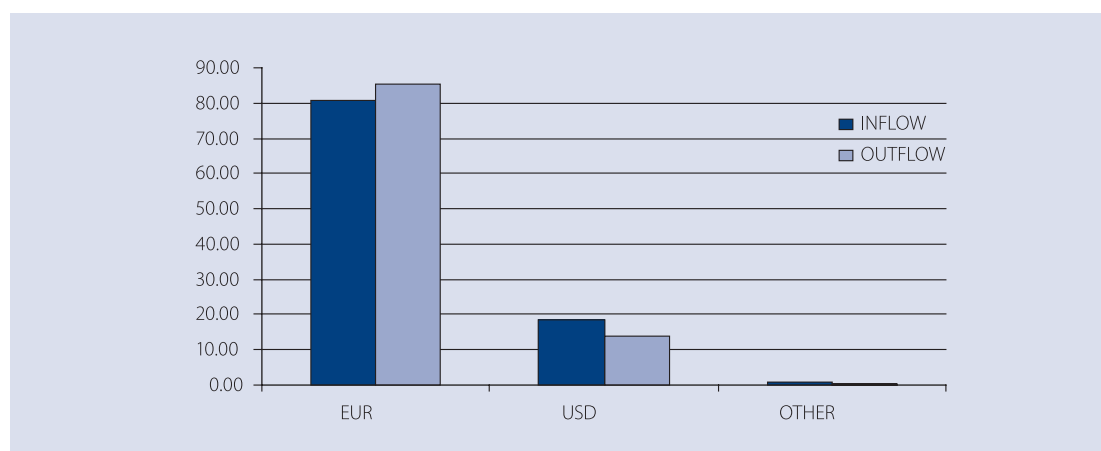
A surplus was recorded in the sub-account of factor income to the amount of EUR 22.8 million, which is 53% more than in the comparative period. The surplus in the sub-account of current transfers was EUR 12.1 million, being 36% lower mainly due to a lower inflow of foreign assistance.

Foreign investments in the reporting period amounted to EUR 162 million, primarily due to the sale of Telecom Montenegro, and investments arising from the purchase of real estate also continued to grow. At the same time, significantly reduced borrowings in the form of loans were recorded.

If we observe the currency structure of transactions with abroad, it can be seen that 80.7% of the entire inflows were in EUR, while 18.8% was charged in USD. As for the outflow of money, 83.6% was in EUR, and 16% in USD.¹⁰

¹⁰ The source of data is the statistics of international payment operations, and income does not include the estimated income from tourism which are mainly in EUR.

Graph 5.1.
Currency structure of exports and imports in the reporting period

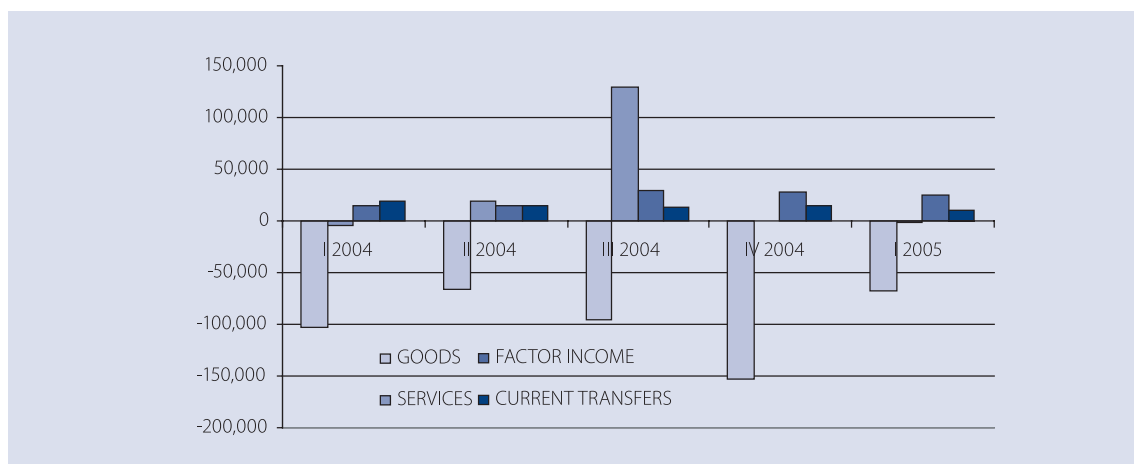


Source: Central Bank of Montenegro's statistics of international payment operation

Table 5.1.
Balance of payments quarterly data for 2004 and 2005, EUR thousand

	2004				2005
	I quarter	II quarter	III quarter	IV quarter	I quarter
A. CURRENT ACCOUNT (1+2+3+4)	-74,568	-18,170	77,176	-110,927	-34,501
1. GOODS	-103,453	-65,975	-95,230	-153,668	-67,773
1.1. Exports	102,005	121,331	115,710	112,947	95,369
1.2. Imports	205,458	187,306	210,940	266,615	163,142
2. SERVICES	-4,855	18,677	129,040	358	-1,546
2.1. Revenues	16,576	44,038	156,246	27,713	21,004
2.2. Expenditures	21,431	25,361	27,206	27,355	22,550
3. FACTOR INCOME	14,837	14,163	29,483	27,758	22,763
3.1. Revenues	26,198	29,556	35,931	43,770	30,475
3.2. Expenditures	11,361	15,393	6,448	16,012	7,712
4. CURRENT TRANSFERS	18,903	14,965	13,883	14,625	12,055
4.1. Transfers to Montenegro	21,538	17,411	16,886	17,658	15,522
4.2. Transfers from Montenegro	2,635	2,446	3,003	3,033	3,467
B. CAPITAL AND FINANCIAL ACCOUNT	44,407	55,418	-3,052	70,620	58,014
1. CAPITAL ACCOUNT					
2. FINANCIAL ACCOUNT (1+2+3+4+5)	44,407	55,418	-3,052	70,620	58,014
1. Direct investments - net	9,343	21,467	5,575	14,182	161,244
2. Portfolio investments - net	149	607	1,222	3,546	7,883
3. Other investments - net	13,598	16,505	30,092	34,328	-673
4. Changes in net foreign assets of commercial banks	19,569	21,629	-22,481	13,103	-780
5. Change in CBM reserves (assets deposited in foreign banks)	1,748	-4,790	-17,460	5,461	-109,660
C. NET ERRORS AND OMISSIONS (A+B)	-30,161	37,248	54,399	-20,582	23,513

Graph 5.2.
Current account sub-accounts per quarters, 2004 and 2005



5.1. Current Account

Preliminary data show that the current account deficit amounted to EUR 35 million, representing a fall of 53.7% in relation to the same period in 2004. It was mainly due to the trade deficit which was 51% covered by

the balances in the sub-accounts of factor income and current transfers (33% in 2004). The current account deficit amounted to 10.1% of the estimated GDP in the reporting period.

Table 5.2.
Balance of payments current account, EUR thousand

	I-III 2004	I-III 2005	Index	% BDP*
A. CURRENT ACCOUNT (1+2+3+4)	-74,568	-34,501	46.3	-10.1%
1. GOODS	-103,453	-67,773	65.5	-19.9%
1.1. Exports	102,005	95,369	93.5	28.0%
1.2. Imports	205,458	163,142	79.4	48.0%
2. SERVICES	-4,855	-1,546	31.8	-0.5%
2.1. Revenues	16,576	21,004	126.7	6.2%
2.2. Expenditures	21,431	22,550	105.2	6.6%
3. FACTOR INCOME	14,837	22,763	153.4	6.7%
3.1. Revenues	26,198	30,475	116.3	9.0%
3.2. Expenditures	11,361	7,712	67.9	2.3%
4. CURRENT TRANSFERS	18,903	12,055	63.8	3.5%
4.1. Transfers to Montenegro	21,538	15,522	72.1	4.6%
4.2. Transfers from Montenegro	2,635	3,467	131.6	1.0%
GDP*	340,100			

Source: Central Bank of Montenegro, preliminary data

*Estimated BDP for the first three months of 2005

5.1.1. Visible trade

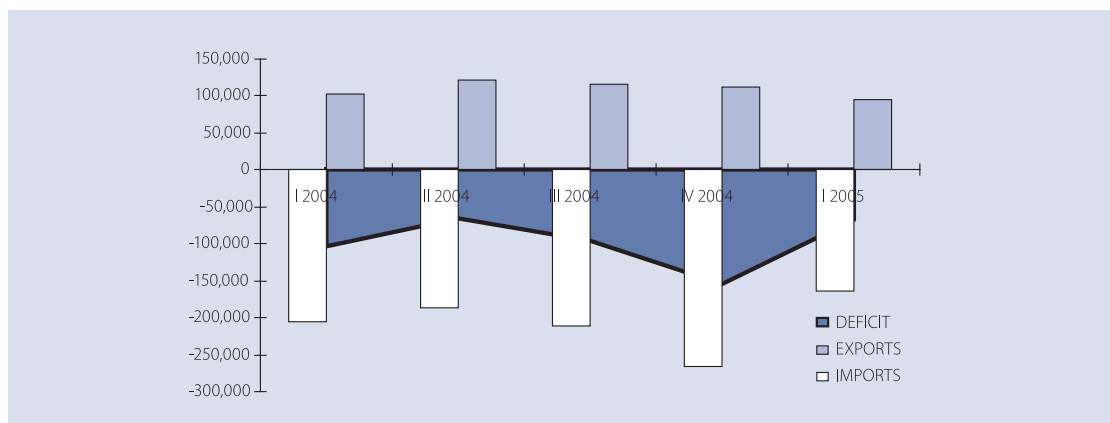
The visible trade of Montenegro amounted to EUR 258.5 million or 15.9% less than in the comparative period (EUR 307.5 million). Visible exports and imports were EUR 95.4 million and EUR 163.1 million, respectively. The result was a deficit of EUR 67.8 million, which reduced the imbalance in Montenegro's visible foreign trade by 34.5% in relation to the previous year. The contribution of deficit to total visible trade was 26.2%, or almost 7.5% less than in the comparative period. Visible exports in this period fell by 6.5%.

Preliminary data on **visible exports** shows a fall of 6.5%. The average monthly export was EUR 31.8 million in the reporting period, and that in the comparative period amounted to EUR 34 million. The main characteristics of Montenegro's exports are low diversity, the large export of raw material and semi-finished products, and a low export of finished products. Of the total value of exports, EUR 52.3 million or 54.8% referred to the export of aluminium, and 45.2% to the export of other products.¹¹ Compared to the same quarter in 2004, the export of aluminium grew by 3.1% if the amounts are given in EUR, and 8% if given in USD – the selling currency of aluminium. The average price of aluminium in the reporting three-month period of 2005 was USD 1.939,3 or some 17.6% more than in the comparative period (USD 1.649,3).

Table 5.3.
Visible import/export by quarters, EUR thousand

	I 2004	II 2004	III 2004	IV 2004	I 2005
Exports	102,005	121,331	115,710	112,947	95,369
Imports	-205,458	-187,306	-210,940	-266,615	-163,142
Balance	-103,453	-65,975	-95,230	-153,668	-67,773

Graph 5.3.
Visible imports and exports in 2004 and 2005



¹¹ Source of data: Unique Customs Declarations

Observed by regions, the main export partners of Montenegro in this period were developing countries.

The increased exports to Italy, Greece and Slovenia, as well as the fall in exports to Spain were due to the amount of aluminium traded with them (according to the customs declarations). The contribution of aluminium to the total exports of Montenegro to Italy is 88%, 93% to Greece, and 82% to Slovenia.

The fall of visible exports was mainly due to a fall in the export of machines and transport equipment, food and live animals, beverages and tobacco. The aforementioned branches of SITC make up one fifth of total visible exports.

The main contributors to visible exports were manufactured products classified chiefly by materials, EUR 64.1 million or 67.2%, and a growth of EUR 1.4 million or 2.16% in relation to the comparative period, to which aluminium contributed a total of EUR 52.3 million or 81.64% (54.9% to total exports). Aluminium export increased by 3.1%.

Table 5. 4.
Structure of exports by countries, EUR thousand

EXPORTS	I-III 2004	%	I-III 2005	%	Index
TOTAL	102,005		95,369		
Developed countries	54,010	52.95	44,610	46.78	82.60
Italy	20,584	20.18	26,747	28.05	129.94
Greece	4542	4.45	10,874	11.40	239.41
Great Britain	74	0.07	3,180	3.33	4297.30
Switzerland	17,965	17.61	2,296	2.41	12.78
Singapore	492	0.48	390	0.41	79.27
Germany	498	0.49	331	0.35	66.47
Liberia	389	0.38	204	0.21	52.44
Spain	5,735	5.62	158	0.17	2.76
Austria	28	0.03	137	0.14	489.29
USA	267	0.26	91	0.10	34.08
Virgin Islands	1,162	1.14	90	0.09	7.75
France	72	0.07	47	0.05	65.28
Belgium	63	0.06	56	0.06	88.89
Netherlands	2,139	2.10	9	0.01	0.42
Developing countries	43,627	42.77	47,146	49.44	108.07
Serbia and Kosovo	35,910	35.20	29,216	30.63	81.36
Slovenia	637	0.62	10,775	11.30	1691.52
Bosnia and Herzegovina	2,736	2.68	3,459	3.63	126.43
Croatia	1,271	1.25	1,138	1.19	89.54
Hungary	702	0.69	874	0.92	124.50
Albania	1,877	1.84	671	0.70	35.75
Cyprus	215	0.21	490	0.51	227.91
FYR Macedonia	268	0.26	472	0.49	176.12
Czech Republic	11	0.01	51	0.05	463.64
Other	4,368	4.28	3,613	3.79	82.72

Source: Data from the customs declarations

Graph 5.4.
Montenegro's export partners in the reporting period

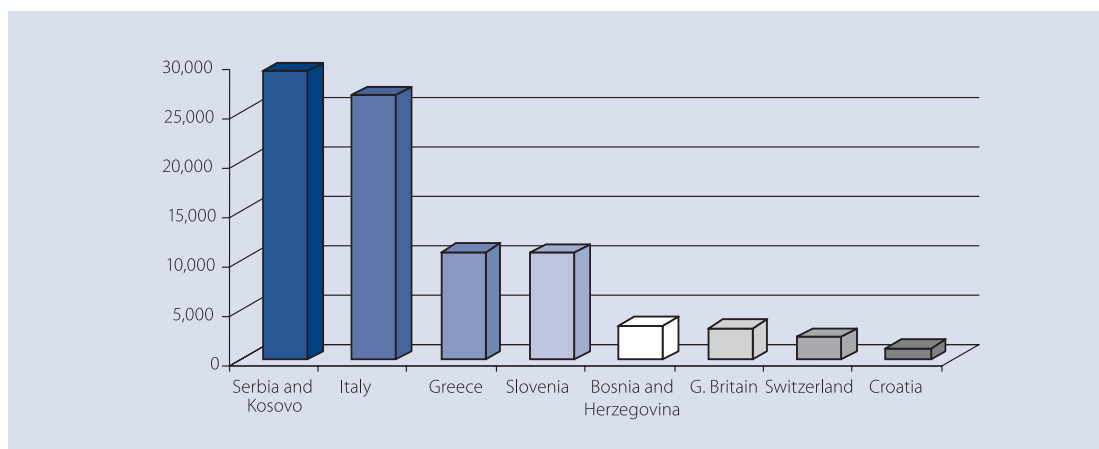


Table 5.5:
Visible exports by SITC*, EUR thousand

ITEM	I - III 2004	I - III 2005
Food and live animals	10,076	7,215
Beverages and tobacco	9,104	6,946
Crude materials, except fuels	4,926	3,255
Mineral fuels, lubricants and related materials	836	1,553
Animal and vegetable oils, fats and waxes	5	27
Chemicals and related products	2,892	2,163
Manufactured goods classified chiefly by materials	62,714	64,068
Machinery and transport equipment	9,899	6,064
Miscellaneous manufactured articles	1,532	4,078
Other products not mentioned	21	0
TOTAL	102,005	95,369

Source: Data from the customs declarations
**SITC- Standard International Trade Classification*

Export of products classified in the group Food and Live Animals amounted to EUR 7.2 million, which made up 7.6% of total exports, being EUR 2.8 million or 28.4% less than in the comparative period. This was primarily due to a fall in export of various meat, edible offal, canned

products, and fresh and dried fruit. The reasons for this fall should be sought in the activities undertaken by the Ministry of Agriculture and the Ministry of Tourism on the popularisation of domestic products which induced a larger consumption of these products in Montenegro. A remarkable fall was recorded in the export of beverages and food, 23.7% or EUR 2.1 million. These products contribute 7.3% to total exports.

During this period, the export of machines and transport equipment also recorded a fall in relation to the same period in 2004, EUR 3.8 million or 38.7%. The value of this export was EUR 6.1 million, contributing 6.4% to total exports. The severest fall was recorded in the export of ships and boats, by EUR 3.7 million or 67.6%, then the export of aircrafts and equipment, EUR 1.3 million or 62.3%, and in the export of internal combustion engines and other electrical apparatus.

Exports to Serbia and Kosovo recorded a fall of 18.6%. The largest Montenegrin export product to Serbia during the reporting period was aluminium (EUR 6.8 million or some 30% of total exports to this destination), then fresh or dried fruit (EUR 4.6 million or 20%), manufactured tobacco, alcoholic beverages, metal rods and tyres, medicines, and miscellaneous ferrous metallurgy products.

Visible imports amounted to EUR 163.1 million, being 20.6% lower than in the comparative period. The average monthly imports amounted to EUR 54.4 million, and that in the same three-month period of 2004 was EUR 68.5 million.

Graph 5.5.
Visible exports by SITC in the reporting period

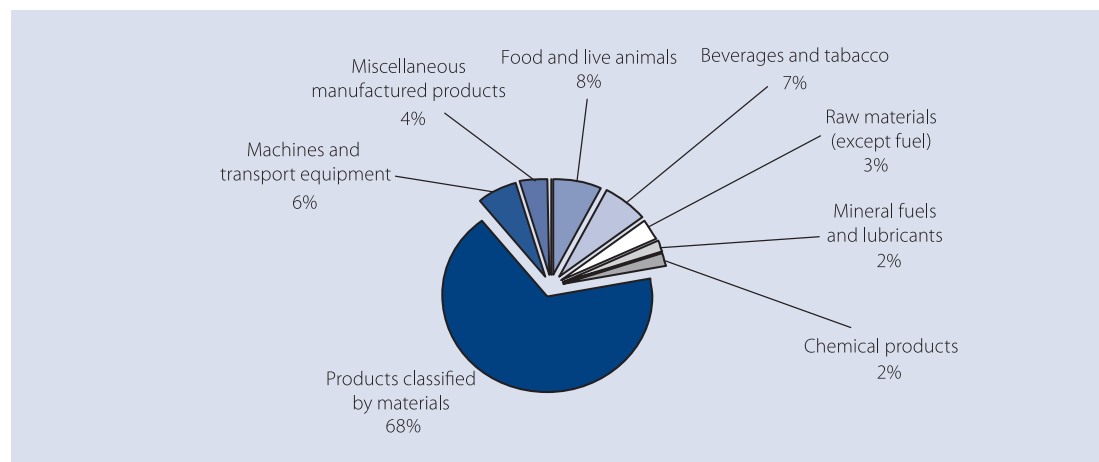


Table 5.6.
Visible imports by SITC*, EUR thousand

ITEM	I-III 2004.	I-III 2005.
Food and live animals	43,010	26,070
Beverages and tobacco	6,255	3,726
Crude materials, except fuels	1,688	2,725
Mineral fuels, lubricants and related materials	26,582	38,837
Animal and vegetable oils, fats and waxes	1,897	1,751
Chemicals and related products	26,415	13,952
Manufactured goods classified chiefly by materials	31,490	20,033
Machinery and transport equipment	46,145	33,513
Miscellaneous manufactured articles	21,974	22,535
Other products not mentioned	2	0
TOTAL	205,458	163,142

Source: Data from the customs declarations
*SITC- Standard International Trade Classification

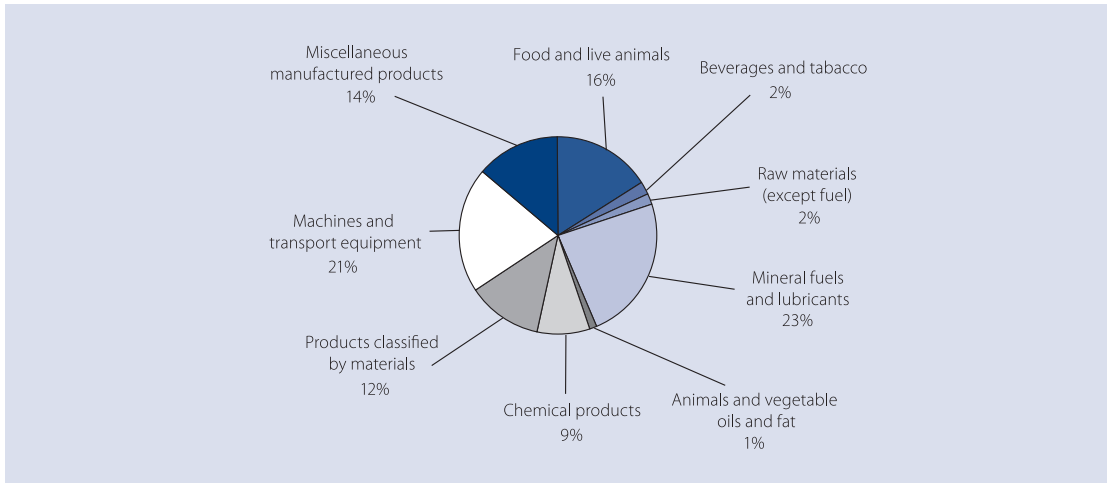
Observed by SITC nomenclature, visible imports in this period fell in almost all sectors. The greatest fall was registered in the group of chemical products, 47.2%, then beverages and tobacco, 40.4%, and food and live animals, 39.5%. The exceptions were the following groups of

products: raw material (except fuels) that recorded a growth in import of 61.4%, mineral fuels and lubricants with an increase of 46.1%, and miscellaneous manufactured products, 2.6%.

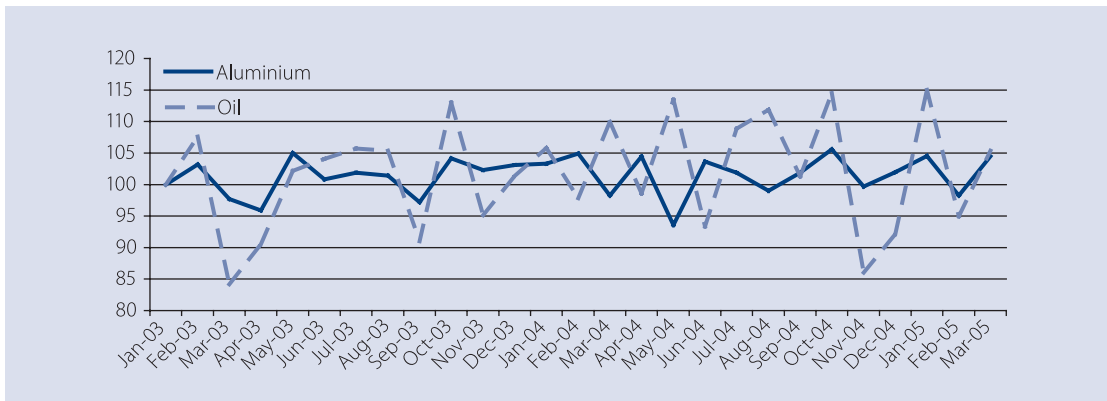
The most imported products were those from the group of mineral fuels and lubricants, EUR 38.8 million or 23.8% of total imports in this period. The import of oil and oil derivatives of EUR 23 million (which represents an increase of 77% in relation to the comparative period) takes the most important place in this group of products, 59.2%. The import of electricity of EUR 15.1 million makes up 38.8% of total imports, and it increased in comparison with the same three-month period of 2004 by 14.3%.

The group of products that includes machines and transport equipment contributed EUR 33.5 million or 20.5% to total imports. In relation to the comparative period, this import fell by 27.4%. The most significant in this group was the import of passenger cars, EUR 9.9 million or 29.4%, showing an increase of 14.8%. Then, there is the import of electrical and non-electrical household appliances of EUR 2.3 million or 6.9% of total imports of this sector. This import recorded a fall of 43.8%. To wit, due to the adverse economic situation in the last ten years, worn out household appliances, and the expansion of consumer loans, demand for this group of products was larger in 2004 which resulted in increased imports. Additionally, during the same year, telecommunication companies modernized their equipment which induced significantly larger imports of this equipment, by 49%. Lessened activities in the construction

Graph 5.6.
Visible imports by SITC in the reporting period



Graph 5.7.
Movements of prices of aluminium and oil in the world market



industry induced a lower import of related products (construction material, ceramic tiles, sanitary products).

The value of import of the group food and live animals was EUR 26.1 million or 16% of total imports. Meat products contributed EUR 4.9 million or 19.7%, the same as in the comparative period. The import of cereal and flour products of EUR 2.5 million or 9.6% of total imports recorded a fall of 45.6%. Milk and products except treacle/molasses were imported to the amount of EUR 2.4 million and contributed 9.2% to total imports, but recorded a fall of 8.6%. Activities undertaken by the Ministry of Agriculture, Forestry and Water Management with regard to the quality

control and purchase of milk under favourable conditions (additional premium of 2.5 euro cents per litre), development premium for cattle breeding, increase of milk products manufacturing, organised purchase of cattle surpluses, fish breeding, the disbursement of beehives, provision of high-quality seeds, development of polythene greenhouses, and so on reduced the need for the import of the aforementioned products.

The opening of new production facilities for the manufacturing of juices, an increase in production by existing enterprises, and a growth in tobacco production in 2004 resulted in a lower import of these products in the reporting period of not less than 64%.

The most striking fall in imports was recorded in the group of chemical products, 47.2% in relation to the first quarter of 2004. The largest item within the group (with a 33.2% contribution) made up medicines, EUR 4.6 million, with the fall in imports of 46.8%, followed by perfume and beauty products, toiletries, and cleaning materials reduction in import of more than 50%.

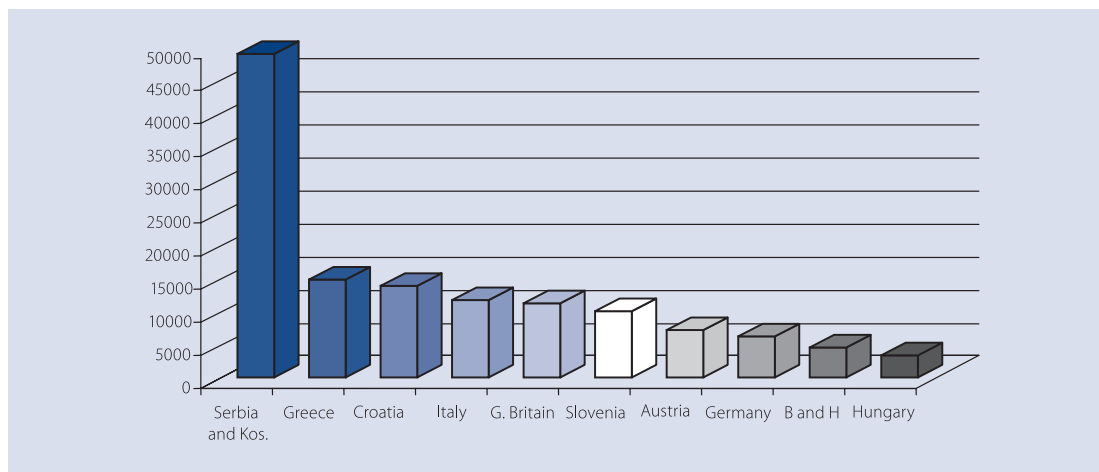
The value of goods imported from Serbia and Kosovo was EUR 49.3 million, which is EUR 8.7 million or 15.1% less than in the comparative period. Most of the imported good from these destinations were miscellaneous finished products (16% of total imports from Serbia and Kosovo), medicines (6.6%), cereals and cereal products (6.1%), milk, milk products and meet, alcoholic beverages, and so on.

Table 5.7.
Structure of imports by countries, EUR thousand

IMPORTS TOTAL	I-III 2004	%	I-III 2005	%	Index
	205,458		163,142		
Developed countries	81,279	39.56	64,539	39.56	79.40
Greece	7,499	3.65	14,979	9.18	199.75
Italy	20,638	10.04	11,830	7.25	57.32
Great Britain	10,508	5.11	11,291	6.92	107.45
Austria	9,237	4.50	7,199	4.41	77.94
Germany	10,086	4.91	6,396	3.92	63.41
Switzerland	4,843	2.36	3,068	1.88	63.35
Holland	2,742	1.33	2,630	1.61	95.92
USA	4,337	2.11	1,757	1.08	40.51
Turkey	1,337	0.65	1,275	0.78	95.36
France	4,687	2.28	1,080	0.66	23.04
Spain	1,360	0.66	1,082	0.66	79.56
Sweden	2,418	1.18	711	0.44	29.40
Belgium	951	0.46	745	0.46	78.34
Denmark	636	0.31	496	0.30	77.99
Developing countries	119,389	58.11	95,167	58.33	79.71
Serbia and Kosovo	58,070	28.26	49,281	30.21	84.86
Croatia	16,692	8.12	13,924	8.53	83.42
Slovenia	19,140	9.32	10,196	6.25	53.27
Bosnia and Herzegovina	5,060	2.46	4,618	2.83	91.26
Hungary	2,982	1.45	3,388	2.08	113.62
Russian Federation	14	0.01	3,317	2	23,692.86
Bulgaria	1,866	0.91	1,794	1	96.14
FYR Macedonia	1,607	0.78	1,638	1.00	101.93
Czech Republic	4,313	2.10	1,508	0.92	34.96
China	1,019	0.50	1,364	0.84	133.86
Cyprus	3,621	1.76	1,339	0.82	36.98
Romania	2,418	1.18	930	0.57	38.46
Ukraine	233	0.11	715	0.44	306.87
Poland	1,609	0.78	627	0.38	38.97
Albania	504	0.25	298	0.18	59.13
Panama	241	0.12	230	0.14	95.44
Other	4,790	2.33	3,436	2.11	71.73

Source: Data from the customs declarations

Graph 5.8.
Montenegro's largest import partners in the reporting period



The analysis of imports by regions in the reporting period shows that Montenegro mainly imported from developing countries.

Although the report covers a period of only three months, it can be concluded that Montenegro's exports still rely on goods that are not in the final manufacturing phase, but on raw material and semi-finished products. On the other hand, a substantial portion of imports are made up of finished products for whose production there is a raw material basis in Montenegro, but insufficient production, which represents one of the main culprits for the existence of the trade balance deficit. Montenegro should work on the improvement of the production processes (by raising the technical-technological production level as an important factor for the quality improvement of products, and reducing costs that is one of the conditions for improved competitiveness), especially in those branches in which it could achieve competitive advantages.

5.1.2. Services

Besides visible trade, a part of the current account concerns transactions with abroad arising from services. The services are classified in four main categories; transportation services, tourism, financial services, and revenues and expenditure from other services.

Revenues from services amounted to EUR 21 million, showing an increase of EUR 4 million or 27% in relation to the comparative period of 2004. **Expenditure for services** was EUR 23 million, being EUR 1 million or 5% higher.

The **balance of services** was negative in the reporting period, amounting to EUR 1.5 million, and it was lower than the deficit recorded in the same three-month period the year before by EUR 3 million or 685.

Transportation revenues were EUR 10 million, which represents an increase of EUR 1 million or 13%. Transportation revenues from transactions with abroad (except Serbia and Kosovo) were the same as in the comparative period, but those from transactions with Serbia and Kosovo grew by 133.6%. This was due to the increased railway traffic of 1207% (from EUR 15 thousand in 2004 to EUR 196 thousand in the reporting period), and marine transport of 208% (from EUR 429 thousand to EUR 1.3 million). **Expenditure** totalled EUR 6.7 million, being EUR 0.4 million or 7%. The **surplus** of transportation services in this period was EUR 3.8 million, which is 25% greater.

Estimated revenues from tourism were EUR 3.6 million, which is EUR 1 million or 34.5% more. Of this amount, revenues from foreign tourists (except tourists from Serbia and Kosovo) amounted to EUR 2.2 million, and those from tourists from Serbia EUR 1.4 million. The surplus totalled EUR 1.6 million or 57% more than in the comparative period.

Box 5.1. Diversified Tourist Offer

Revenues from foreign tourists rose by 76.3% in the reporting period.

The Masterplan for Tourism Development in Montenegro by the year 2020 foresees the creation of the image using the very name of Montenegro as its trademark. One of the conditions for an accelerated development of tourism is a diversified offer, something that has been worked on intensively in Montenegro lately.

This year's tourist season began with the cultural-entertainment-sports event called "Hot Winter in the Hills" with a view to expanding the tourist offer and further development of tourist centres in the north of Montenegro during the winter months. Also, the campaign "The Year of Montenegrin Cuisine" and the slogan "Make you Feel Good" continued this year, contributing to linking agriculture and tourism, and aiming at economically strengthening agricultural producers by putting homemade products directly on the tourist table and this makes the tourist offer richer and more tempting.

The traditional carnival in Kotor was also held, followed by the traditional event in Herceg Novi "The Holiday of Mimosa", complementing the tourist offer during the winter months

International Nautical Fairs in Budva and Kotor represent an incentive to the development of nautical tourism in Montenegro and a source of substantial revenues (in Croatia, there is the opportunity of a summer holiday on a sailboat or a yacht that can be rented for a week or fifteen days under favourable prices).

The aforementioned and other projects would bring great benefit in the long term not only to the places where the events are held, but also to all of Montenegro that is becoming more and more attractive to tourists from all over the world.

5.1.3. Income

Revenues from other services (PTT, forwarding services, licenses, and refining services) were EUR 6 million, being EUR 1.9 million or 46.5% higher than in the comparative period. In the structure of these revenues, the main contributors were PTT services, 37.5%, showing an increase of 44.4% due to the growth in the number of tourists who visited Montenegro in the reporting period.

Expenditure for other services amounted to EUR 12 million, which is a fall of 3%.

The balance of other services was negative in this period, amounting to EUR 6 million, which represents a decrease of EUR 2.2 million or 26.8% in relation to the same three-month period of 2004.

The balance of goods and services was also negative, EUR 69 million, being 36% lower than in the comparative period.

The third item in the balance of payments current account represents revenues and expenditure based on the ownership of production factors. It includes compensation to employees (salaries, wages, pensions, disability pensions, remittances), and revenues and expenditures from interests, investments, and dividends.

Income revenues in the reporting period amounted to EUR 30.5 million, which is an increase of EUR 4.2 million or 16.3%. The increase occurred due to the increased inflow of funds arising from compensations to employees of EUR 4.2 million or 17.3%. Revenues from Serbia for individuals were EUR 1.9 million, the same as the year before. The main reason for the growth of compensation to employees was the increase of foreign exchange remittances credited to private citizens' foreign exchange accounts of 17%. Also, revenues from interest grew in this period, by 97.8%, within which charged interest on demand deposits and short-term deposits increased by 91.8%.

5.1.4. Current Transfers

Income expenditure amounted to EUR 7.7 million, which is EUR 3.6 million or 32.1% less than in the comparative period. Compensations to employees – expenditure increased by EUR 1.6 million or 256% due to more international payments from foreign exchange accounts of resident private citizens using visa cards, mastercards, and so on. Interest expenses fell to EUR 5 million from EUR 7 million in the corresponding period of 2004.

The balance of income was positive, EUR 23 million, being EUR 8 million or 53% higher than the surplus achieved in the first quarter of 2004.

Current transfers are the fourth sub-account in the current account. Revenues from current transfers were EUR 15.5 million, being EUR 6 million or 28% lower. Transfers to Montenegro from abroad amounted to EUR 7.5 million, which is an increase of EUR 0.4 million or 6%. Most of the amount were pensions, EUR 5.7 million or 13% more. Foreign aid recorded in this period totalled EUR 1.6 million, which is 79.7% or EUR 6.2 million less than in the comparative period. Current transfers also include the aid received through non-governmental and humanitarian organisations to the amount of EUR 6.4 million or 2.6% less.

Expenditure for current transfers was EUR 3.4 million or 31.6% more. In this structure, the main contributors were payments to foreign experts, artists, schools, language editors, and costs of our political representatives abroad.

The balance of current transfers was positive, EUR 12 million, which is EUR 6.8 million less than in the same quarter of 2004.

5.2. Capital and Financial Transactions Account

The capital-financial balance recorded increases in foreign and portfolio investments.

The value of net direct investments was EUR 161 million or 1.626% more than in the comparative period, mainly due to the privatisation of Telecom Montenegro. The next in value was investment in real estate of some EUR 4 million, while investments in production and financial organisations were below EUR 1 million.

As for other investments, loans from abroad decreased, amounting to EUR 8.7 million, which is EUR 26 million less than in the comparative period. Repaid loans totalled EUR 9 million or EUR 11 million less.

Net foreign assets of banks was negative, EUR 0.8 million, whereas in the same three-month period of 2004 it amounted to EUR 19.6 million. At the same time, the CBM reserves in foreign accounts were EUR 110 million higher than at end-2004, and if the first quarter of 2004 and end-2003 are compared, these reserves were EUR 1.7 million higher.

Table 5.8.
Foreign direct investments, EUR thousand

Investment	I - III 2004	I -III 2005	%
in production	-	457	-
in services	9,812	157,120	1.601
in financial organisations	-	450	-
Sale of real estate	484	3,999	826
Total:	10,296	162,026	1.574

The net errors and omissions item has a residual position in the balance of payments and is a compensating difference between the balance of the current account and capital-financial account. Coverage of all inflow/outflow items should be zero as a net final result. However, normally when all entered items are calculated the final result is either

a balance of net receivables or payables. Such a balance is the result of errors and omissions in report making, i.e. in its comprehensiveness, and the methodology itself whose modification is under way. In addition, this item also encompasses currency differentials and net short-term commodity credits.

Box 5.2 Methodological explanations of the balance of payments

The balance of payments is prepared pursuant to the methodology prescribed by the International Monetary Fund (Balance of Payments Manual, 1993). The sources of data are: Republic of Montenegro Customs Office, MONSTAT, Electric Power Industry of Montenegro, the Ministry of Finance, commercial banks, and the Central Bank of Montenegro. The balance of payments is given in USD and EUR. Identical sources of data are used for both currencies, and thus the transactions included are the same. Recalculation of the transaction values from the original currency to the reporting currency is performed by: using the mean rate of exchange of the Central Bank of Montenegro on a transaction day, using monthly and annual mean rate of exchange of the Central Bank of Montenegro, and using a daily mean rate of exchange at the end of the period with evaluation of transactions whose change is monitored.

The revision of data from 2004 was performed at the beginning of 2005. To wit, during the previous year, it was technically impossible to monitor visible transactions between Montenegro and Serbia on the basis of data from the Customs Office of Montenegro, i.e. customs declarations. Until 2004, the source for monitoring these flows were only the data of commercial banks on completed international payment operations, that is, the ITRS.

The registering of transportation services uses banks' data on completed international payment operations.

Data on revenues from tourism is obtained on the basis of the number of tourist nights (data from Monstat) and estimated average daily spending. At the beginning of 2005, the model for the assessment of revenues from tourism was corrected by including both 2003 and 2004. Data on tourism expenditure is obtained on the basis of international payment operations.

Financial services (insurance and reinsurance, representative and mediation commission fees, and commission fees and expenses for banking operations) are tracked on the basis of the foreign payment operations statistics. Other services include investment work in foreign countries, PTT and communication services, forwarding services, expenses for the maintenance of representative offices, computer and information technology services, author's fee, and fees for licence issuance, as well as other business services. The data is obtained from foreign payment operations statistics and banks' reports.

Income statement comprises data from foreign payment operations statistics on compensations to employees, payments, and charged dividends. The source of data is banks' reports. This statement also includes pensions, which are from the methodological point of view seen as transfers, but due to the inability of banks to record this item separately, we record them together with other income. The annual correction of both revenues and expenditure is consequently performed. To wit, it was noticed that pursuant to the Instructions for the method of performing foreign payment operations item 897 - *withdrawn assets and issued nostro cheques from foreign exchange accounts of resident private citizens* was recorded as an outflow of foreign currencies from the country, which was the case before the introduction of the EURO as the legal tender because all foreign payments could be made only in foreign currencies. However, with the introduction of the euro it was concluded that almost all the money is spent

in the country. Furthermore, item 797 - *deposited cash and cheques in foreign currency accounts by resident private citizens* now represents depositing of assets by residents to their foreign currency accounts who manage them freely, which is not a part of the balance of payments statistics.

Current transfers include data from international payment operations statistics, the Ministry of Finance, and the estimate of the unregistered transfers. The survey conducted in commercial banks showed the amount of pensions that come from abroad and has been until now a part of the compensations to employees, and thus have been excluded from factor income and included in transfers.

Direct and portfolio investments are tracked on the basis of data from foreign payment operations statistics and conducted polls. Other investments include inflows and outflows arising from credits, and the basis of their recording is the payment operations statistics and the Central Bank of Montenegro statistics on credit relations with foreign countries.

The correction of loans on the annual level was performed, which was necessary due to the error detected in the report of one commercial bank and which relates to the classification of these transactions.

6. MONTENEGRO AND THE EUROPEAN UNION

On 12 April 2005, the European Commission adopted a positive Feasibility Study on the Association of the State Union of Serbia and Montenegro to the European Union. This is the first step towards joining the European Union. Although some critics will stress that this does not mean much since all countries of Southeast Europe had obtained positive feasibility studies a long time ago, yet this “small step” actually represents a “big step” that irrevocably marked the beginning of the association process.

The process is complicated and long. Most of the economies in transition that joined the EU took more than a decade to become full members. The feasibility study sets certain tasks that must be completed in order to take the following step – negotiations on the conclusion of the Agreement on Stabilisation and Association. Upon the signing of the Agreement, it is necessary to start fulfilling undertaken liabilities after which Montenegro (the State Union) will be allowed to apply for the status of a candidate country for accession. This is followed by negotiations on the accession, finalising with acquiring full membership of the EU. This is not an easy process, as it implies the harmonisation with EU regulations (95,000 pages and increasing every day), the implementation of these regulations, and the establishment of various institutions.

The Feasibility Study imposes numerous tasks on Montenegro, of which some are not unusual: observing human rights, observing international law, the rule of law in the country, establishing good neighbouring relations, peace and stability, and full cooperation with the Hague Tribunal.

Some requests are specific, such as the rationalisation of the public administration, fiscal consolidation, better operating of the Ombudsman's office, the enactment of legislation on the protection of minorities, more rights for refugees, accelerating and improving the transparency of the privatisation process, the enactment of new antimonopoly regulations, the regulation of public procurement, the regulation on the control of the Government assistance, improvement in the fight against piracy, legal regulation of consumers' rights, a higher level of the independence of the judicial system, the establishment of direct payment operations between Serbia and Montenegro, and so on.

The European Commission concluded that high taxes on income are the main obstacles to the opening of new jobs. However, when Montenegro recently planned to reduce these tax rates, the International Monetary Fund protested that it would induce a deterioration of the fiscal deficit, and the position of the Health-Care and the Pension Funds. Nevertheless, this argument provides a strong pillar for Montenegro in future negotiations with this institution to insist on additional reduction of taxes and contributions on salaries taking into account that these are higher than in neighbouring countries. On one hand, the existing taxes and contributions discourages the opening of new jobs, while on the other hand, foreign investors find Montenegro less attractive in this respect.

In order for the accession process to be successful, it is necessary to strengthen the administrative capacity of the state. Besides the Ministry for International Economic Relations and European Integrations that should have the key role in this process, it is also essential to organise special units within all Ministries to deal with issues concerning accession to the EU within their authority. The alternative that may be considered is the establishment of a special Ministry for European Integrations as this way of organising the accession to the EU have proved very useful in Croatia which received the status of a candidate country in a very short time.

In addition, it should not be disregarded that after joining the EU it will not be possible to protect domestic enterprises from EU competition. This may lead to the bankruptcy of those enterprises that fail in being competitive. Therefore, it is crucial to accelerate the restructuring and privatisation processes of enterprises facing financial troubles in order to prepare them for **greater/more powerful** competition in the domestic market.

The immediate actions to be undertaken with a view to accelerating the accession process are:

- the preparation of the Strategy for the Accession to the EU;
- start with the implementation of recommendations from the Feasibility Study since it represents the prerequisite for

- the conclusion of the Agreement on the Stabilisation and Association;
- the forming of professional teams in all areas of «acquis communautaire»;
 - start with translating European regulations, that is, connecting with teams working on the same thing in Serbia, Croatia, and Bosnia and Herzegovina;
 - make sure that all newly adopted laws and enabling regulations are in accordance with EU directives and
 - start with the preparations for negotiations on the Conclusion of the Agreement on Stabilisation and Association.

Finally, the question is: when can the State Union (Montenegro) expect to become a full member of the EU? The European Union has not imposed any precise deadlines, which leads to the conclusion that this will largely depend on how fast we will fulfil our obligations from the Feasibility Study, i.e. the Agreement on Stabilisation and Association (after its signing). The current position of Montenegro is much more favourable than that of other economies in transition when they started the association process. Unlike other countries that started as a centrally-planned economy, Montenegro starts as a market economy, using the opportunity to benefit from the experiences (both positive and negative) of these countries. How fast this process will be greatly depends on the EU experience with the newly joined member countries.

7. IMPORTANT EVENTS

March 2005

Montenegrin Government adopted the proposed Law on Accounting and Audit whose aim is to make the market more dynamic with regard to these services.

The securities Commission adopted new rules of stock exchange trading – the Rule on the trade of Block Shares and the Rules on the Takeover of Companies.

Montenegro's tourist offer was presented at the International Tourism Fair in Berlin, one of the two largest tourist events in Europe, at which there were more than ten thousand exhibitors from 180 countries.

The Chairman of the Board of Directors of the Nikšićka železara, owned by a multinational company Midland Resources, was dismissed.

The representatives of the Montenegrin Government, the Employment Bureau, and Magyar Telecom signed in Podgorica the Contract on the sale of 51.12% of shares of Telecom Montenegro to this Hungarian company. Telecom Montenegro, as the most profitable Montenegrin company, has fixed and mobile telephony operators, an Internet provider, telephone booths Montecard, and owns some 17% of Crnogorska Komercijalna Bank. The Government sold its packet of shares for EUR 114 million or EUR 1.4 per share, and after the conclusion of the transaction it was announced that Magyar Telecom would offer to buy the remaining 48.88% of shares at the price of EUR 2.2 per share. The Government decided to offer EUR 0.30 per share that each minority shareholder sells to Magyar Telecom during the public tender.

A management company "Prima", founded by the private enterprise Pro Vladex, shall manage the privatisation-investment fund HLT, which was decided in the extraordinary Shareholder Assembly of this fund.

The Parliament of Montenegro adopted the Government's proposal of Amendments to the Law on the Prevention of Money Laundering

ANNEXES

Annex A. Real sector developments

Table 1.
Preview of macroeconomic developments

DESCRIPTION	2004	2004 (chain index)											
	XII/XI	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Industrial output (index)	126.6	73.0	91.3	113.1									
Cost of living (index)	101.6	100.1	100.1	100.2									
Retail prices (index)	101.8	100.1	100.1	100.2									

Source: Monstat

Table 2.
Industrial output

	2004	ø 2004 = 100							LEVEL INDEX		
		2004			2005				III 2005	III 2005	I - III 2005
		II	III	I - III	II	III	I - III	II 2005	III 2004	I - III 2004	
Industry-total	100.0	95.1	97.3	93.1	89.9	101.7	96.7	113.1	104.5	103.9	
Mining and quarrying	6.0	78.4	50.4	63.4	46.7	91.6	68.4	196.1	181.7	107.9	
Mining and quarrying of en. producing mat.	2.3	123.0	21.7	95.2	73.1	74.6	86.0	102.1	343.8	90.3	
Mining of pit coal, lignite and peat	2.3	123.0	21.7	95.2	73.1	74.6	86.0	102.1	343.8	90.3	
Mining and quarrying exept energy producing mat.	3.7	50.5	68.4	43.6	30.2	102.2	57.5	338.4	149.4	131.9	
Mining of metal ores	2.9	59.0	80.7	49.8	29.5	118.0	64.3	400.0	146.2	129.1	
Other mining and quarrying	0.8	21.2	25.9	21.8	32.5	47.4	34.1	145.8	183.0	156.4	
Manufacturing	67.6	83.0	106.9	87.8	90.6	102.0	93.4	112.6	95.4	106.4	
Manufacture of food products, beverages, and tobacco	9.1	70.8	90.8	73.4	83.9	98.5	77.6	117.4	108.5	105.7	
Manufacture of food products baverages	6.3	72.1	92.3	77.8	53.6	91.1	67.6	170.0	98.7	86.9	
Manufacture of tobaco products	2.8	67.7	87.3	63.2	153.3	115.7	100.4	75.5	132.5	158.9	
Manufacture of textiles and textiles products	1.5	67.2	180.5	96.8	70.3	88.0	71.6	125.2	48.8	74.0	
Manufacture of textile fabrics	0.2	61.3	40.0	43.7							
Manufacture of wearing apparel and fur	1.3	67.9	198.8	103.7	79.5	99.5	81.0	125.2	50.1	78.1	
Manufacture of leather and leather products	0.1										
Manufacture of wood and wood products	1.6	46.0	62.3	47.2	1.4	8.6	12.5	614.3	13.8	26.5	
Manufacture of paper, publishing, and printing	0.8	100.9	99.4	100.9	82.7	95.1	87.4	115.0	95.7	86.6	
Manufacture of cellulose paper and paper products	0.2	74.6	84.2	74.2	68.5	85.9	71.0	125.4	102.0	95.7	
Publishing, printing and reproduction	0.6	110.2	104.7	110.3	87.7	98.4	93.2	112.2	94.0	84.5	
Manufacture of coke and oil derivates	2.1	47.7	55.9	50.1	375.6	368.7	336.3	98.2	659.6	671.3	
Manufacture of chemical products and fibres	0.1	171.9	125.1	145.8	65.0	105.8	56.9	162.8	84.6	39	
Manufacture of rubber and plastic products	6.0	93.6	102.7	98.2	89.8	99.7	95.9	111.0	97.1	97.7	
Manufacture of other non-metal minerals	44.8	86.9	112.0	91.7	81.3	93.9	87.7	115.5	83.8	95.6	
Manufacture of metal and metal products	43.1	87.6	112.9	92.7	83.5	94.4	89.2	113.1	83.6	96.2	
Manufacture of basic metals	1.7	70.3	89.4	68.1	28.4	79.3	50.3	279.2	88.7	73.9	
Manufacture of metals products, exept machinery	0.6	91.4	114.5	93.9	175.6	119.1	141.3	67.8	104.0	150.5	
Manufacture of other machinery and equipment	0.1		335.7	111.9	67.1	151.0	92.3	225.0	45.0	82.5	
Manufacture of transport equipment	0.7	102.1	116.3	102.1	70.9	76.6	77.5	108.0	65.9	75.9	
Manufacturing N.E.C.	0.1	88.7	83.7	57.5	103.6	87.7	71.8	84.7	104.8	124.9	
Electricity, gas, water supply	26.4	129.8	83.2	113.3	97.8	103.5	111.6	105.8	124.4	98.5	

Source: Monstat

Table 3.
Industrial production

	Total			Mining and quarrying			Manufacturing			Electricity, gas, water supply			
	2000=100	annual growth rate	monthly growth rate	2000=100	annual growth rate	monthly growth rate	2000=100	annual growth rate	monthly growth rate	2000=100	annual growth rate	monthly growth rate	
2001.	99.3	-0.7		88.5	-11.5		101.6	1.6		93.9	-6.1		
2002.	99.9	0.6		95.1	7.5		103.9	2.3		87.7	-6.6		
2003.	102.3	2.4		96.5	1.4		101.8	-2.1		103.1	17.5		
2004.	116.4	13.8		91.5	-5.1		115.1	13.1		124.7	21.0		
2002.	Jan	78.2	-16.0	-33.8	74.9	52.9	-39.3	76.2	-5.6	-31.2	87.3	-38.0	-39.6
	Feb	87.4	-17.2	14.0	90.0	51.8	20.1	99.5	-1.4	30.7	56.7	-57.2	-28.8
	Mar	99.6	-12.8	11.8	72.7	-8.4	-19.2	107.1	1.3	7.6	87.8	-40.8	45.0
	Apr	103.4	3.2	-5.6	49.6	57.1	-32.8	114.4	14.4	6.8	51.9	-39.2	-40.8
	May	80.6	-21.6	-14.3	71.9	-18.4	44.8	104.5	-4.0	-8.6	17.2	-81.0	-66.9
	Jun	95.5	2.2	18.3	100.4	10.6	39.6	108.2	2.8	3.5	58.5	-4.6	240.4
	Jul	105.5	24.5	10.5	113.0	61.9	12.5	111.4	9.6	2.8	86.9	103.1	148.6
	Aug	93.5	5.2	-11.2	133.0	23.4	17.7	95.6	-11.6	-14.1	75.7	150.6	-12.9
	Sep	107.6	18.2	15.0	126.1	-18.6	-5.1	110.5	11.1	15.6	93.7	95.7	23.7
	Oct	117.8	17.4	9.5	120.8	2.7	-4.3	111.3	4.0	0.6	134.9	75.7	44.0
	Nov	116.3	10.0	-1.4	122.2	35.6	1.1	108.4	7.8	-2.6	135.8	9.1	0.6
	Dec	120.1	1.6	3.3	66.0	-46.5	-45.9	99.7	-0.6	1.6	164.0	19.7	20.7
2003	Jan	65.7	29.0	-16.0	46.3	-38.2	-29.9	86.2	13.1	-21.8	124.2	42.3	-26.3
	Feb	72.3	27.9	13.3	66.8	-25.8	44.1	97.2	-2.3	13.1	163.9	189.3	10.7
	Mar	86.8	14.3	-0.3	77.0	5.9	15.2	107.3	0.2	10.1	144.1	64.1	-17.8
	Apr	106.7	-11.3	-26.8	56.4	13.6	-26.8	95.6	-16.4	-11.0	58.8	13.2	-59.1
	May	63.2	0.4	-3.1	56.1	-22.0	-0.5	98.4	-5.9	3.1	40.2	134.2	-31.6
	Jun	97.6	7.5	26.9	98.1	-2.3	74.2	111.7	3.2	13.5	79.2	35.4	96.7
	Jul	131.3	1.5	-1.3	100.7	-10.9	3.0	105.6	-5.2	-5.4	89.7	3.2	13.4
	Aug	98.4	6.9	-1.3	210.7	58.4	109.3	97.8	2.3	-7.3	71.9	-5.0	-19.7
	Sep	127.1	-1.1	-3.3	177.3	40.6	15.8	98.8	-10.6	1.0	66.4	-29.2	-7.9
	Oct	138.2	-11.1	8.4	103.9	-14.0	-41.4	113.2	1.7	14.6	166.8	23.6	10.1
	Nov	127.9	-10.8	-1.0	88.6	-27.5	-14.8	104.5	-3.6	-7.7	105.9	-22.0	29.2
	Dec	122.0	1.6	17.7	75.1	13.8	-15.3	101.9	2.2	6.9	164.8	0.5	55.7
2004	Jan	65.6	-0.1	-17.4	56.3	21.5	-25.2	85.0	-1.4	-23.9	124.2	0.0	-4.1
	Feb	69.8	-3.5	9.4	71.7	7.4	27.6	95.4	-1.8	12.7	151.5	-7.6	2.3
	Mar	85.9	-1.1	2.3	46.1	-40.1	-35.6	123.3	14.9	28.9	103.9	-27.9	-35.9
	Apr	154.4	44.7	7.0	58.3	3.4	26.3	117.2	22.5	-5.3	150.3	155.7	45.1
	May	92.3	46.0	-2.2	53.8	-4.1	-7.8	113.3	15.2	-3.0	190.8	374.2	0.2
	Jun	113.7	16.5	-0.3	101.4	3.3	87.6	117.6	5.3	1.6	129.6	63.7	-13.9
	Jul	139.3	6.1	-9.3	100.0	-0.7	-1	119.3	13.0	2.8	77.0	-14.2	-40.6
	Aug	98.6	0.2	-6.2	90.4	-57.1	-9.6	114.0	16.5	-3.8	65.2	-9.3	-15.1
	Sep	145.7	14.6	10.6	164.3	-7.3	82.1	118.2	19.6	3.6	74.5	12.3	13.9
	Oct	148.3	7.3	1.4	102.1	-1.7	-37.9	123.4	9.0	4.5	173.3	3.9	14.4
	Nov	152.7	19.4	10.1	88.3	-0.3	-3.7	121.6	16.3	-1.5	140.4	32.5	64.7
	Dec	156.5	28.3	26.6	166.9	122.1	88.2	128.1	25.7	15.4	198.4	20.4	41.5
2005	Jan	74.4	13.3	-27	61.5	9.3	-63	101.1	19	-27.8	130.6	5.1	-16.3
	Feb	66.0	-5.5	-8.7	42.8	-40.4	-30.4	104.2	9.2	3.4	114.1	-24.7	-26.7
	Mar	89.7	4.5	13.1	83.8	81.7	96.1	117.6	-4.6	12.6	129.2	24.4	5.8

Source: Monstat and CBM calculations

Table 4.
Industrial output

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Chain index	73.0	91.3	113.1									
ø 2004 = 100	98.5	89.9	101.7									
Same month in the preceding year	113.3	94.5	104.5									
The same period in the preceding year		103.5	103.9									

Table 5.
Retail prices

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Chain index	100.1	100.1	100.2									
ø 2004 = 100	102.6	102.7	102.9									
Same month in the preceding year	103.7	103.5	103.6									
The same period in the preceding year		103.6	103.6									
December 2004 = 100	100.1	100.2	100.4									

Table 6.
Cost of living

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Chain index	100.1	100.1	100.2									
ø 2004 = 100	101.5	101.7	101.8									
Same month in the preceding year	101.2	101.2	101.3									
The same period in the preceding year		101.1	101.2									
December 2004 = 100	100.1	100.2	100.4									

Table 7.
Producers' prices of manufactured products

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Chain index	100.1	100.2	102.2									
ø 2004 = 100	100.2	100.4	102.6									
Same month in the preceding year	103.6	103.3	102.5									
The same period in the preceding year		103.4	103.1									
December 2004 = 100	100.1	100.3	102.5									

Source: Monstat

Table 8.
Prices

		Retail prices						Costs of living		Producers prices of manuf. products	
		Total		Goods		Services		Total		Total	
		annual growth rate	monthly growth rate	annual growth rate	monthly growth rate	annual growth rate	monthly growth rate	annual growth rate	monthly growth rate	annual growth rate	monthly growth rate
2001	Jan	20.5	3.7	21.7	4.5	15.1	0.3	20.1	4.8	12.4	1.1
	Feb	21.4	1.6	22.4	1.5	16.5	2.4	20.5	1.7	12.4	5.3
	Mar	20.3	0.7	20.7	0.3	18.3	2.3	19.7	0.7	10.9	-0.5
	Apr	19.2	0.8	19.4	0.8	18.4	0.6	17.5	0.8	10.8	0.6
	May	18.8	1.0	19.0	1.2	18.3	0.0	17.9	1.8	13.2	1.3
	Jun	21.9	3.2	19.3	0.9	34.4	14.1	22.1	3.0	13.1	0.3
	Jul	23.4	2.4	18.6	0.5	45.3	10.4	21.5	0.4	15.5	1.1
	Aug	24.8	2.7	20.5	3.2	44.9	1.1	23.3	2.7	19.7	1.6
	Sep	25.6	2.0	21.4	2.0	45.3	1.8	23.5	1.3	18.6	-1.2
	Oct	25.1	0.5	20.9	0.6	44.8	0.1	22.8	0.5	19.4	-0.5
	Nov	25.0	2.8	21.5	3.5	41.5	0.0	24.3	3.7	12.7	1.2
	Dec	28.0	3.5	25.6	4.0	39.5	1.7	26.5	2.5	15.1	4.1
2002	Jan	20.3	1.7	19.0	0.6	26.5	6.9	18.3	1.3	7.3	0.6
	Feb	19.7	0.9	18.7	1.1	24.5	0.3	18.0	1.3	6.0	1.1
	Mar	19.8	0.6	19.2	0.8	22.3	0.0	18.2	0.9	7.9	1.0
	Apr	20.8	1.6	20.6	2.0	21.6	0.1	19.7	2.0	7.1	-0.2
	May	21.3	1.4	21.1	1.6	21.9	0.3	19.4	1.7	6.6	0.4
	Jun	20.7	0.8	21.2	0.9	18.2	0.2	19.1	0.8	3.8	-2.4
	Jul	19.4	0.1	20.7	0.1	13.5	0.2	17.6	-1.0	2.4	-0.3
	Aug	17.3	0.3	18.2	0.3	13.0	0.8	15.8	0.4	0.9	-0.6
	Sep	16.1	0.9	16.9	0.8	12.6	1.4	15.5	0.9	3.8	1.4
	Oct	15.7	0.3	16.4	0.3	12.7	0.2	15.1	0.2	4.2	-0.1
	Nov	12.8	0.3	12.4	0.0	14.7	1.9	11.0	0.1	3.9	0.1
	Dec	9.4	0.1	8.7	0.1	12.7	0.0	9.2	0.5	0.7	-0.3
2003	Jan	8.4	0.8	8.4	0.3	8.4	2.8	8.4	0.5	-0.7	-0.1
	Feb	8.0	0.5	7.5	0.2	10.3	2.1	7.2	0.1	-1.5	0.0
	Mar	8.0	0.6	6.8	0.1	13.8	3.2	6.5	0.2	-0.7	1.8
	Apr	9.7	3.2	8.1	3.2	17.3	3.2	7.7	3.1	3.8	3.8
	May	8.5	0.2	6.6	0.2	17.4	0.4	6.1	0.2	2.9	0.0
	Jun	8.0	0.3	6.0	0.4	17.1	0.0	6.6	1.3	6.7	0.9
	Jul	8.3	0.3	5.8	-0.2	19.8	2.4	6.9	-0.8	7.2	0.2
	Aug	8.0	0.1	5.7	0.1	18.9	0.0	6.7	0.2	7.9	0.0
	Sep	7.4	0.3	5.2	0.4	17.4	0.2	6.3	0.5	6.7	0.4
	Oct	7.1	0.1	5.0	0.1	17.2	0.0	6.3	0.2	7.0	0.1
	Nov	6.8	0.0	5.0	0.0	15.1	0.0	6.4	0.1	7.3	0.2
	Dec	6.7	0.0	5.1	0.2	14.3	-0.7	6.2	0.3	8.2	0.6
2004	Jan	5.2	0.1	4.2	0.1	10.3	0.2	5.2	0.1	6.3	-0.2
	Feb	5.7	0.5	4.5	0.2	11.1	2.3	5.4	0.2	6.9	0.5
	Mar	5.5	0.1	4.9	0.1	8.4	0.2	5.8	0.1	8.7	3.3
	Apr	2.3	0.1	1.7	0.2	5.0	0.0	2.6	0.0	6.3	0.6
	May	2.7	0.6	1.7	0.2	7.4	2.6	2.8	0.4	6.7	0.3
	Jun	2.4	0.0	1.3	0.0	7.5	0.1	0.9	-0.6	5.5	-0.4
	Jul	2.1	0.0	1.5	-0.1	5.0	0.1	0.9	-0.7	5.7	0.2
	Aug	2.1	0.1	1.4	0.1	5.0	0.0	0.8	0.1	6.0	0.3
	Sep	2.0	0.2	1.2	0.1	5.2	0.3	0.3	0.0	4.9	-0.6
	Oct	2.4	0.5	1.3	0.2	7.1	1.8	0.3	0.3	4.6	-0.1
	Nov	2.5	0.1	1.2	0.1	7.8	0.0	-0.1	0.1	4.0	0.0
	Dec	4.3	1.8	1.1	-0.1	18.1	9.5	1.5	1.6	3.6	-0.4
2005	Jan	3.7	0.1	0.9	0.1	16.5	0.0	1.2	0.1	3.6	0.1
	Feb	3.5	0.1	0.9	0.1	15.0	0.0	1.2	0.1	3.3	0.2
	Mar	3.6	0.2	1.0	0.2	15.2	0.2	1.3	0.2	2.5	2.2

Source: Monstat

Table 9.
Tourism

		2004		2005		Index		Structure	
		III	I - III	III	I - III	$\frac{\text{III '05}}{\text{III '04}}$	$\frac{\text{I - III '05}}{\text{I - III '04}}$	III	I-III
Arrivals	Total	9.765	26.407	7.999	29.154	81,9	110,4	100,0	100,0
	domestic	6.810	19.441	5.576	18.915	81,9	97,3	69,7	64,9
	foreign	2.955	6.966	2.423	10.239	82,0	147,0	30,3	35,1
Nights	Total	39.603	103.850	35.011	115.478	88,4	111,2	100,0	100,0
	domestic	28.733	83.289	25.406	77.674	88,4	93,3	72,6	67,3
	foreign	10.870	20.561	9.605	37.804	88,4	183,9	27,4	32,7

Source: Monstat

Table 10.
Number of employed and unemployed people

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Employed*												
2001.	114.536	113.500	113.542	113.663	113.943	114.137	114.106	114.024	115.077	114.755	114.170	113.744
2002	113.594	113.597	113.953	113.663	113.943	114.137	114.422	113.684	113.526	113.676	113.679	113.425
2003	112.637	112.846	112.317	112.132	111.738	112.648	112.905	112.647	111.461	110.911	110.387	109.639
2004	108.562	107.359	108.634	109.623	109.642	109.863	110.886	111.158	110.049	109.696	110.055	108.228
2004***	142.081	142.834	142.361	143.224	143.845	146.696	145.160	142.634	143.447	143.113	143.992	142.438
2005***	142.145	142.072										
Unemployed**												
2001	81.238	82.158	82.453	83.091	82.629	82.140	81.823	80.686	80.952	80.668	80.440	81.069
2002	80.385	81.360	81.510	81.961	81.602	81.041	81.116	80.830	80.809	80.183	79.894	76.293
2003	76.584	76.077	76.165	74.976	73.520	69.735	66.951	66.277	67.664	71.023	72.544	68.625
2004	69.573	71.419	72.378	72.202	68.993	64.572	60.993	60.771	60.447	59.930	79.894	76.293
2005	59.115	58.774	58.075									

*Source: Monstat;

** Source: Employment Bureau

*** New methodology applied

Annex B

Table 11.
Balance sheet of banks, EUR thousand

	2004	2005					Share %, 31.03.
	31.12.	31.01.	28.02	31.03.	Index	Index	
	2	3	4	5	5:4	5:2	
ASSETS							
1. Financial resources and deposits	107.595	98.411	98.681	115.021	116.6	106.9	24
2. Credits	281.483	282.288	290.820	306.371	105.3	108.8	65
2.1. Credit loss reservations	-11.249	-12.972	-12.960	-13.212	101.9	117.5	-3
2.2. Net credits	270.234	269.316	277.860	293.159	105.5	108.5	62
3. Securities	23.853	22.323	24.699	23.523	95.2	98.6	5
4. Other assets	45.349	48.279	46.482	44.205	95.1	97.5	9
5. Reserves	-2.661	-1.026	-1.020	-1.015	99.5	38.1	0
6. TOTAL ASSETS	444.370	437.303	446.702	474.903	106.3	106.9	100
LIABILITIES							
1. Deposits	273.194	265.109	273.168	303.507	111.1	111.1	64
1.1. Sight deposits	151.498	140.800	148.034	169.554	114.5	111.9	36
1.2. Term deposits	121.696	124.309	125.133	133.953	107.0	110.1	28
2. Short term borrowings from financial institut.	9.081	7.810	9.204	9.494	103.2	104.5	2
3. Other borrowings	50.461	50.666	50.793	51.324	101.0	101.7	11
4. Other liabilities	20.869	22.168	21.899	18.350	83.8	87.9	4
5. Total capital	90.765	91.550	91.638	92.228	100.6	101.6	19
4.1. Capital and reserves	91.881	90.765	90.614	90.762	100.2	98.8	19
4.2. Profit / Loss (+,-) current year	-1.116	785	1.024	1.466	143.2	-131.4	0
6. TOTAL LIABILITIES	444.370	437.303	446.702	474.903	106.3	106.9	100

Source: Bookkeeping of banks

Table 12.
Review of calculated and appropriated reserve requirements, EUR thousand

		Licensed banks										
		1	2	3	4	5	6	7	8	9	10	11
		Hipotekarna bank	Podgoricka bank	Crnog. kom. bank	Euromarket bank	Niksicka bank	Pljevaljska bank	Atlas Mont bank	Montenegro-bank	Opportunity bank	Komerc. bank - Budva	TOTAL (1-10)
2004	December	2.767	5.752	11.382	3.146	839	354	2.856	2.484	699	1.984	32.263
		2.596	5.750	10.973	3.070	804	346	2.625	2.522	694	1.940	31.320
		2.557	5.799	11.080	3.081	758	315	2.498	2.677	695	1.989	31.449
		2.651	5.794	11.442	4.612	654	298	2.605	2.361	669	2.022	33.108
		2.570	6.048	10.361	5.059	580	404	3.010	2.401	716	2.017	33.166
2005	January	2.682	6.158	10.683	4.671	691	437	2.972	2.381	701	2.073	33.449
		2.837	6.173	10.950	5.279	627	315	2.722	2.353	734	2.119	34.109
		2.510	5.847	11.164	5.029	583	307	2.738	2.415	769	2.183	33.545
		2.382	5.554	11.046	4.629	511	317	2.835	2.401	717	2.230	32.622
	February	2.342	5.672	11.053	4.229	626	288	3.281	2.321	783	2.214	32.809
		2.119	5.886	11.562	3.824	541	326	3.326	2.239	881	2.337	33.041
		2.191	5.833	11.728	4.095	485	338	3.066	2.226	891	2.390	33.243
		2.185	5.880	12.011	3.888	555	295	2.970	2.927	962	2.334	34.007
	March	2.284	5.968	12,136	3,954	645	249	3,307	2,896	1,043	2,299	34,781
		2,261	5,980	11,608	4,140	655	236	3,007	2,612	1,157	2,239	33,895
		2,043	5,927	11,666	4,322	496	227	2,870	2,608	1,515	2,257	33,931
		1,986	6,050	12,022	4,237	475	229	2,880	2,469	1,750	2,338	34,436
		2,104	5,931	12,250	4,772	560	243	2,670	2,496	1,704	2,229	34,959

Source: Central Bank of Montenegro

Annex C

Table 13.
Budgetary revenues and budgetary expenditures in 2005, EUR

DESCRIPTION	Planned for 2005	January	February	March	Cumulative	
					01.01 - 30.11.2005	
REVENUES	Amount	Amount	Amount	Amount	Amount	% realization
<i>Funds from previous year</i>		10,391.16			10,391.16	
Taxes	383,369,163.83	17,579,506.88	20,695,130.20	31,553,337.87	69,827,974.95	18.21
Personal income tax	71,900,000.00	2,003,243.84	4,149,558.66	5,509,324.52	11,662,127.02	16.22
Corporate income tax	17,259,324.80	472,843.33	1,453,719.96	2,613,297.32	4,539,860.61	26.30
Property tax and Turnover tax on property and rights	3,500,000.00	67,530.28	163,322.96	153,367.16	384,220.40	10.98
Turnover tax	243,696,594.32	13,448,658.33	12,490,604.73	19,573,387.83	45,512,650.89	18.68
International trade and transactions tax	43,778,831.12	1,476,780.99	2,220,952.69	3,424,266.86	7,122,000.54	16.27
Other Taxes	3,234,413.59	110,450.11	216,971.20	279,694.18	607,115.49	18.77
Dues	7,077,349.04	259,661.61	493,212.28	543,011.08	1,295,884.97	18.31
Other Republic income	32,617,119.32	634,103.97	1,150,273.18	1,503,895.41	3,288,272.56	10.08
Capital income - dividends	5,400,000.00				0.00	0.00
Regular income	428,463,632.19	18,483,663.62	22,338,615.66	33,654,758.25	74,477,037.53	17.38
Income from property sale	6,000,000.00				0.00	0.00
Grants	3,691,337.20	0.00	0.00	0.00	0.00	0.00
Borrowings and loans	53,608,662.79	0.00	3,054,546.00	3,568,162.91	6,622,708.91	12.35
Loan repayment revenues					0.00	
TOTAL REVENUES (4+5+6+7)	491,763,632.18	18,483,663.62	25,393,176.66	37,222,921.16	81,099,761.44	16.49
EXPENDITURES					0.00	
Total current expenditures	402,795,322.41	9,948,246.37	23,915,525.72	27,616,679.91	61,480,452.00	15.26
Gross wages and salaries	158,580,769.11	1,202,402.01	10,439,846.08	9,943,038.34	21,585,286.43	13.61
Other earnings and compensation of employees	12,324,684.75	18,070.67	701,148.00	1,223,924.29	1,943,142.96	15.77
Expenditures for material and services	58,315,751.40	879,750.71	3,284,782.75	4,151,626.67	8,316,160.13	14.26
Interest rates	19,500,000.00	465,047.95	252,819.99	1,603,955.16	2,321,823.10	11.91
Annuity	1,907,357.55	73,436.30	116,904.91	117,510.43	307,851.64	16.14
Subventions	5,642,446.00	47,985.00	389,140.95	158,445.14	595,571.09	10.56
Contributions and social benefits	144,658,073.60	7,256,553.73	8,698,883.04	10,315,549.22	26,270,985.99	18.16
Other expenditures	1,866,240.00	5,000.00	32,000.00	102,630.66	139,630.66	7.48
Capital expenses	27,932,114.86	19,404.53	290,857.99	683,589.67	993,852.19	3.56
Total expenses	430,727,437.27	9,967,650.90	24,206,383.71	28,300,269.58	62,474,304.19	14.50
Borrowings and loans	6,700,000.00	239,163.87	261,594.00	267,000.00	767,757.87	11.46
Debt repayment	41,700,000.00	3,745,433.30	832,583.65	1,673,906.54	6,251,923.49	14.99
Budgetary reserve	850,000.00	252,726.41	0.00	571,312.04	824,038.45	96.95
Current budgetary reserve	11,786,194.93	226,486.56	2,117,754.69	945,564.26	3,289,805.51	27.91
TOTAL EXPENDITURES	491,763,632.20	14,431,461.04	27,418,316.05	31,758,052.42	73,607,829.51	14.97
Surplus / (deficit)*		8,036,799.75	-3,985,507.74	3,837,612.37	7,888,904.38	

* Surplus / Deficit as a difference between total revenues reduced for borrowings and loans, and total expenditures reduced for borrowings and loans and principal payment.

Table 13a.
Revenues and expenditures of funds, EUR million

DESCRIPTION/month	01.01-31.12	2005			
	2004	I	II	III	Cumulative
INCOME					
Pension Fund	171.5	9.53	11.92	13.64	35.1
Health Care Fund	95.0	3.08	8.43	6.81	18.3
Employment Bureau	11.9	1.1	0.5	2.1	3.7
Development Fund	0.419	0.035	0.035	0.030	0.100
EXPENDITURE					
Pension Fund	168.2	8.25	11.99	14.86	35.1
Health Care Fund	94.7	5.9	7.3	7.7	20.8
Employment Bureau	11.5	0.0	0.0	0.0	0.0
Development Fund	0.335	0.028	0.022	0.028	0.078
SURPLUS/DEFICIT					
Pension Fund	3.32	1.3	-0.1	-1.2	-0.01
Health Care Fund	0.31	-2.8	1.2	-0.9	-2.47
Employment Bureau	0.25	1.1	0.5	2.1	3.65
Development Fund	0.084	0.007	0.013	0.002	0.022

Source: Republic Funds in Montenegro

Annex D

Table 14.
Balance of payments of Montenegro, EUR thousand

	January-March		Index	Difference
	2004	2005		
	1	2	3	
GOODS				
Total exports	102,005	95,369	93.5	-6,636
Export of goods excluding trade with Serbia and Kosovo	66,095	66,153	100.1	58
Export to Serbia and Kosovo	35,910	29,216	81.4	-6,694
Total Imports	205,458	163,142	79.4	-42,316
Import of goods excluding trade with Serbia and Kosovo	147,388	113,861	77.3	-33,527
Import from Serbia and Kosovo	58,070	49,281	84.9	-8,789
Goods trade balance	-103,453	-67,773	65.5	35,680
SERVICES				
Total Transportation Revenues	9,308	10,486	112.7	1,178
Transport official data about revenues	8,464	8,514	100.6	50
Transport revenues from Serbia	844	1,972	233.6	1,128
Total transportation Expenditures	6,280	6,697	106.6	417
Transport official data about expenditures	4,282	4,793	111.9	511
Transport expenditures to Serbia	1,998	1,904	95.3	-94
Transportation services balance	3,028	3,789	125.1	761
Total Revenues from Tourism	2,710	3,644	134.5	934
Revenues from tourists abroad (estimate)	1,247	2,199	176.3	952
Tourists from Serbia (estimate)	1,463	1,445	98.8	-18
Total Expenditures to Tourism	1,656	1,991	120.2	335
Expenditures for tourism abroad	1,211	1,040	85.9	-171
Montenegrin tourists in Serbia	445	951	213.7	506
Tourism balance	1,054	1,653	156.8	599
Revenues from Financial Services	469	885	188.7	416
Commission fee	377	683	181.2	306
Commission fee on Serbian import/export	92	202	219.6	110
Others				
Expenditures to financial services	1,133	1,821	160.7	688
Commission fee	953	1,394	146.3	441
Commission fee on Serbian import/export	180	427	237.2	247
Financial services balance	-664	-936	141	-272
Revenues from other Services	4,089	5,989	146.5	1,900
Expenditures to other services	12,362	12,041	97.4	-321
Balance of other services	-8,273	-6,052	73.2	2,221
Revenues from services	16,576	21,004	126.7	4,428
Expenditures to services	21,431	22,550	105.2	1,119
Balance of services	-4,855	-1,546	31.8	3,309
Total balance of goods and services	-108,308	-69,319	64.0	38,989
Income				
Income revenues	26,198	30,475	116.3	4,277
Compensation of employees	24,072	28,229	117.3	4,157
Revenues from Serbia for individuals	1,979	1,981	100.1	2
Interest income	134	265	197.8	131
Received dividends	13	0	0.0	-13
Investments abroad				
Income Expenditures	11,361	7,712	67.9	-3,649
Compensation of employees	609	2,168	356.0	1,559
Expenditures for Serbia for individuals	387	375	96.9	-12
Interest expenses	7,444	5,164	69.4	-2,280
Paid dividends	2,921	5	0.2	-2,916
Investments abroad (estimate)				
Balance of income	14,837	22,763	153.4	7,926
Current transfers				
Revenues	21,538	15,522	72.1	-6,016
Transfers to Montenegro from abroad	7,060	7,508	106.3	448
Foreign assistance	7,903	1,607	20.3	-6,296
Foreign assistance, over NGO and humanitarian organization	6,575	6,407	97.4	-168
Expenditures	2,635	3,467	131.6	832
Transfers from Montenegro to abroad	2,635	3,467	131.6	832
Balance of current transfers	18,903	12,055	63.8	-6,848
Total revenues	166,317	162,370	97.6	-3,947
Total expenses	240,885	196,871	81.7	-44,014
TOTAL BALANCE OF CURRENT ACCOUNT	-74,568	-34,501	46.3	40,067
CAPITAL AND FINANCIAL ACCOUNT	44,407	58,014	130.6	13,607
Capital account				
Capital transfers				
Financial account	44,407	58,014	130.6	13,607
Direct investment	9,343	161,244	1725.8	151,901
Equity capital	9,343	161,244	1725.8	151,901
Reinvested earnings and undistributed branch profits				
Portfolio investment-net	149	7,883	5290.6	7,734
Other investments	13,598	-673		-14,271
Loans	34,490	8,743	25.3	-25,747
Repaid loans	20,892	9,416	45.1	-11,476
Change in Net Foreign Assets	19,569	-780		
Change in CBM foreign reserve assets	1,748	-109,660		
Net errors and omissions	-30,161	23,513		

Source: Central Bank of Montenegro

Table 15.
Foreign direct investment in Montenegro, by country 01.01-31.03.2005, EUR

Country	Total	Production	Services	Real estate	Financial
	1=2+3+4	2	3	4	5
Austria	521,965.00	-	500,000.00	21,965.00	-
Bosnia and Herzegovina	2,211,838.30	-	2,211,838.30	-	-
Republic of Srpska	699,065.16	-	699,065.16	-	-
Israel	79,893.00	14,955.00	64,938.00	-	-
Ireland	27,973.00	-	27,973.00	-	-
Greece	13,397.92	-	-	13,397.92	-
Italy	67,925.00	-	-	67,925.00	-
France	135,000.00	-	-	135,000.00	-
Bulgaria	700,000.00	-	700,000.00	-	-
Cyprus	532,730.21	-	239,415.21	293,315.00	-
Latvia	203,895.00	-	40,000.00	163,895.00	-
Germany	1,080,484.44	-	319,966.50	760,517.94	-
USA	895,374.00	-	845,374.00	50,000.00	-
Russian federation	100,000.00	100,000.00	-	-	-
Hungary	136,181,608.40	-	136,181,608.40	-	-
Slovenia	758,450.00	308,240.00	-	-	450,210.00
Serbia	958,241.32	33,249.10	101,992.22	823,000.00	-
Switzerland	686,976.00	-	494,176.00	192,800.00	-
Sweden	240,148.50	-	49,948.50	190,200.00	-
United Kingdom	15,432,497.04	-	14,244,000.00	1,188,497.04	-
Latvia	400,000.00	-	400,000.00	-	-
Estonia	10,000.00	-	-	10,000.00	-
Ukraine	88,174.87	-	-	88,174.87	-
TOTAL	162,025,637.16	456,444.10	157,120,295.29	3,998,687.77	450,210.00