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# FOREIGN DIRECT INVESTMENTS AS A DRIVING FORCE OF ECONOMIC DEVELOPMENT OF MONTENEGRO

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# SUMMARY

Foreign investments in the past years have been witnessing great international expansion. Thus, foreign investments have increased from 400 billion dollars in 2000, to 1833 billion dollars in 2007. Foreign direct investments are one of the most important drivers of economic development of Montenegro. Considering the share of the FDI inflows in the GDP, Montenegro has been a leader in the group of European economies in transition in the past three years. Despite the global financial crisis, FDI have increased by 15% in the first nine months of the current year, compared to the same period of last year. There are good chances that this year's FDI flows will exceed the last year's record FDI inflow. From 2001, cumulative FDI inflow has amounted 2.89 billion Euros. Regarding regional distribution of foreign direct investments, situation is considered as favorable if the foreign investors are coming from a large number of different countries, because in that case the country of foreign capital inflow is less affected by negative conjectured movements on specific markets. Considering that foreign investors in Montenegro are coming from 107 countries (since 2001) we can conclude that the current situation is favorable. Global financial crisis will certainly have an impact on the foreign investments in the next period, but it is realistic to expect that Montenegro will have a high inflow and once again be on the top of European economies in transition.



**Key words**: Foreign direct investments, Montenegro, global financial crisis, FDI effects.

**JEL code**: F21, E2.

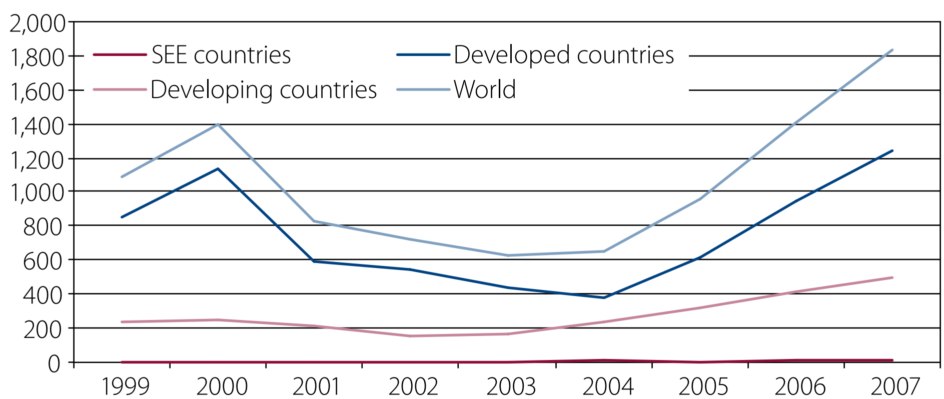
# 1. PERSPECTIVES AND CHARACTERISTICS OF FDI FLOWS ON THE GLOBAL LEVEL AND PERSPECTIVES FOR 2009

Foreign direct investments as part of international capital flows have been witnessing an extraordinary growth in the past couple of years. According to the UNCTAD data, average annual inflow of foreign direct investments in the world has increased from around 400 billion dollars in 2000 to the record 1.833 billion dollars in 20071. It is important to emphasize that all three group of countries- developed countries, developing countries and transitional countries have recorded the growth of FDI in 2007. Growth of FDI in the past couple of years has significantly affected the economic development of many countries throughout the world.

Considering the sectoral distribution of FDI, in addition to the investments in the service sector (banking, telecommunications, tourism), there has been a significant increase of the foreign direct investments in the primary sector, i.e. production and exploitation of the natural resources of oil and gas. It is estimated that this trend will continue due to the great demand for oil and gas in the world. Sectoral distribution of FDI has largely been dependent on strategic and economic motives of the investors. In the previous period, majority of FDI have been realized through the process of privatization of the existing companies, mergers of companies and/or acquisition of majority shares packages.

Considering the regional distribution of FDI flows, developed countries have a leading role compared to other countries. In 2007, countries that were attractive for foreign investors were USA, Great Britain, China, India, Russia and Brazil.

*Graph no. 1 – Regional distribution of foreign direct investments, in bill. dollars*

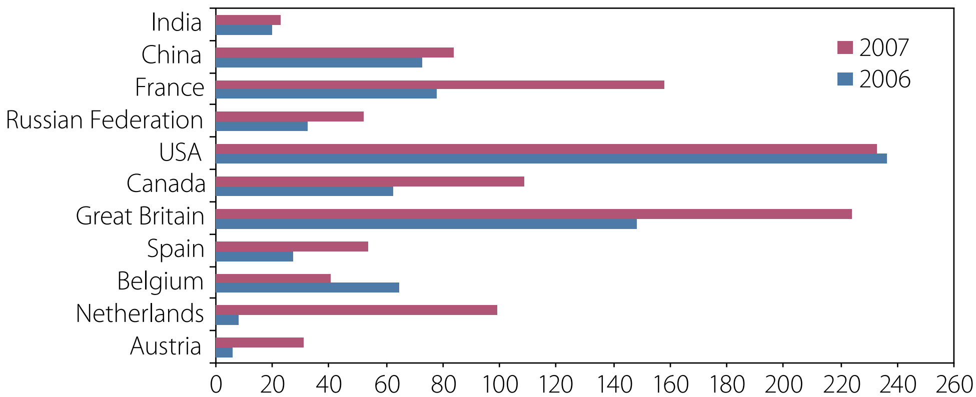



*Source: World Investment Report 2008*

[1] *Source: UNCTAD, WIR 2008: Transnational Corporations and the Infrastructure Challenge*

Besides being recognizable for the investments of capital, developed countries are increasingly realizing the significant inflow of capital. Inflow of FDI in developed countries in 2007 amounted 1.248 billion dollars, which is 32.6% more compared to 2006. Outflow of FDI from developed countries in 2007 exceeded the inflow by 445 billion dollars. In 2007, United States have realized the highest FDI inflow of 232.8 billion dollars, followed by Great Britain (224 billion dollars). Growth of FDI inflow in developed countries resulted from realization of important cross-border mergers and acquisitions and the increase of inflow based on reinvested earnings that were the result of high profitability of foreign branches. Very high inflows of FDI in Great Britain, France, Netherlands and Spain in 2007 have notably contributed to the increase of FDI inflow in the European Union by 43%, compared to 2006 (804 billion dollars).

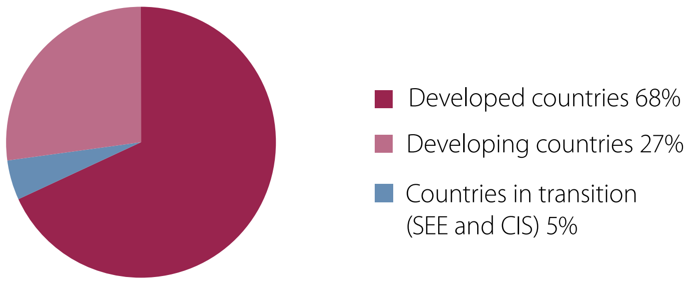
*Graph no. 2 – FDI inflow in selected countries in 2006 and 2007, bill. dollars*




*Source: World Investment Report 2008*

Inflow of FDI in the developing countries is also marked by the growth from 316 billion dollars in 2005 to 500 billion dollars in 2007. In the SEE countries and CIS countries record growth of FDI has been observed in the amount of 86 billion dollars (50%), while the outflow amounted 51 billion dollars. Record increase of inflow, by 62% (52 billion dollars) has been realized in the Russian Federation, which is the country with the highest inflow and outflow among the countries in transition.

*Graph no. 3 – Structure of FDI inflow in the world in 2007 by the group of countries*




*Source: World Investment Report 2008*

During fist half of this year, UNCTAD has conducted a research among 226 multinational companies on their expectations regarding the inflow of FDI. Results of the research show that 21% of companies expects the increase if FDI in the next three years[2]. Around 40% of companies said that financial crisis could have a negative impact on their future investments plans. Surveyed multinational companies see China, India, USA, Russian Federation and Brazil as the most attractive investment destinations in the world.

According to the UNCTAD forecasts, global inflow of FDI in 2008 will be 10% lower than in 2007, as a result of the global financial crisis. The reason is the decreased number of mergers and acquisitions in the first half of 2008 - 29% compared with the second half of 2007. UNCTAD is expecting a stable inflow of FDI in developing countries and a decreased number of mergers and acquisitions that are the bearers of the FDI in the world.

According to the projections of the International Monetary Fund, private flows of capital (net) in fast growing economies and developing countries in 2008 and 2009 will be lower compared to 2007. It is estimated that the net inflow of capital in this countries in 2009 will be lower by 50% compared to 2007 and will amount 286.6 billion dollars[3].

At the end of this part it should be emphasized that the countries have become aware of their responsibilities for the creation of a more attractive business environment for the investors. Creation of sound and competitive business environment and flexible labor market are just some of the elements for attracting FDI. Since the investment conditions are getting more similar regarding the liberalized approach, stable macroeconomic environment and more efficient economic mechanisms are becoming increasingly important for attracting foreign capital.

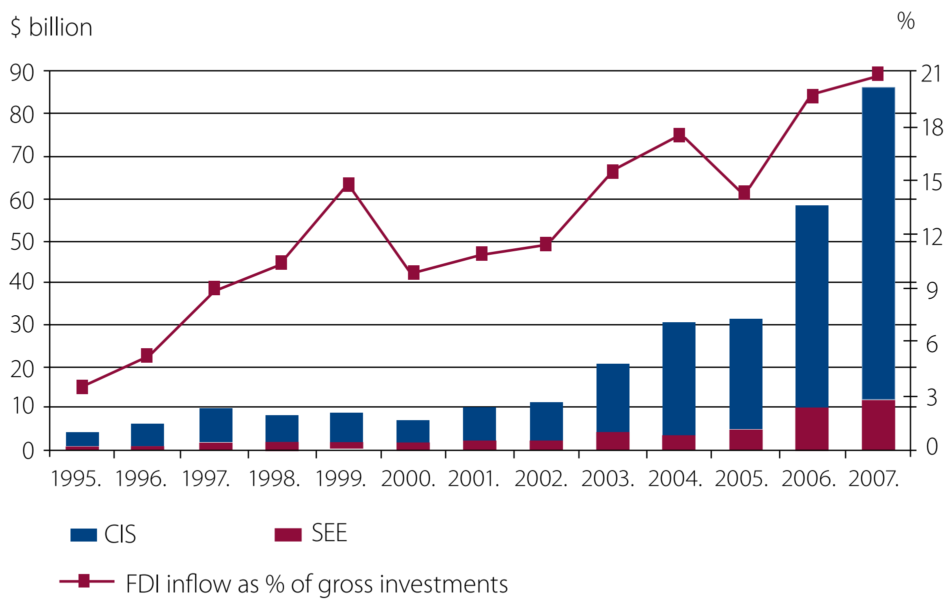
[2] *World Investment Prospects Survey, 2008-2010*
3 *World Economic Outlook, October 2008, Financial Stress, Downturns, and Recoveries*

# 2. MONTENEGRO AND FDI

## 2.1. International comparisons of FDI inflows

During 2007, FDI inflows continued in the SEE region and in the Commonwealth of Independent States (CIS) and have reached a record level of 86 billion dollars, as shown in the following graph. In the SEE countries, the inflow of foreign direct investments was dominantly dependent of privatization, while in the CIS it was connected with the conquering of the market and providing access to natural resources.

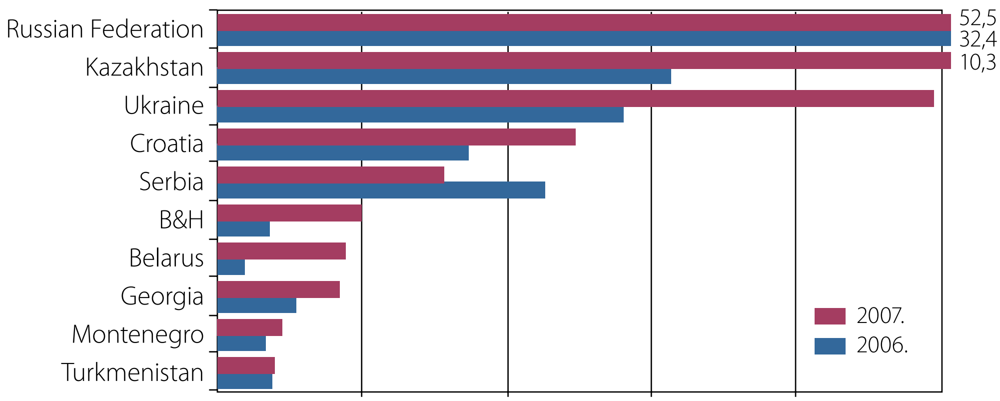
*Graph no. 4 – Gross inflow of FDI and FDI as a percentage of gross investments*




*Source: World Investment Report, 2008*

The highest amount of gross FDI was attracted by Russia – 52.5 billion dollars, while Montenegro, although one of the smallest European countries was among the group of 10 countries with the highest amount of FDI, in absolute amounts (graph no. 5).

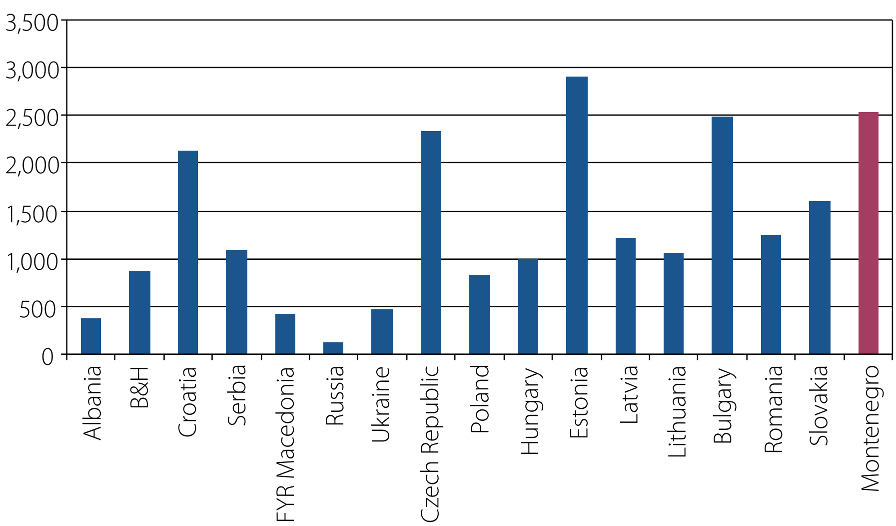
*Graph no. 5 – Ten countries with the highest gross inflow of FDI in SEE and CIS (in mill. dollars)*




*Source: World Investment Report, 2008*

Montenegro has recorded a very high inflow of FDI in the past couple of years. Since the comparison of absolute amounts of FDI inflows can lead to the wrong conclusions, considering a different number of inhabitants, different level of GDP and different size of the countries, it is better to use some of the relative indicators, such as inflow of FDI per capita, or share of FDI in the GDP in selected economies in transition in the past three years. With the net inflow of FDI per capita of 2540 dollars, Montenegro is in the second place, right after Estonia, which had a FDI inflow per capita of 2901 dollars.

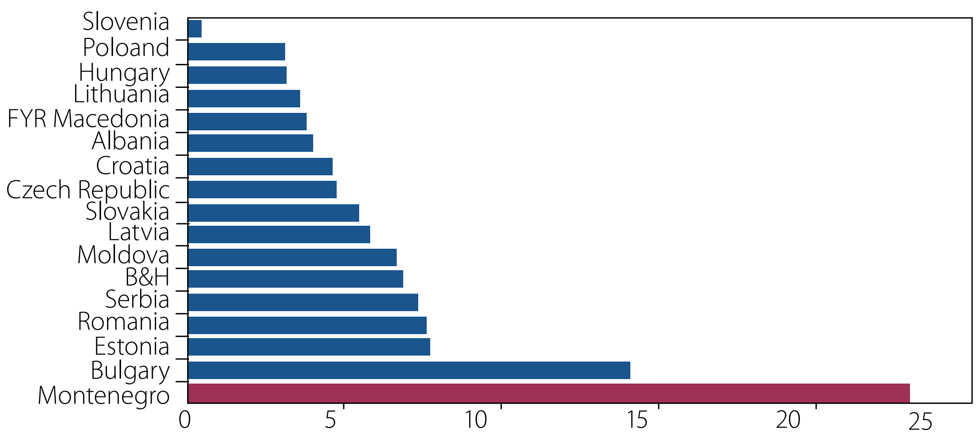
*Graph no. 6 – Net inflow of FDI per capita in the period 2005 – 2007*




*Source: World investment Report 2008 on the Net Inflow of FDI and Transition Report 2007 for Data on the Number of Inhabitants*

According to the IMF calculations for the same period, Montenegro was in the first place among the group of economies in transition regarding the share of FDI in the GDP.

*Graph no. 7 – Inflow of FDI in percentages of GDP in the period 2005 – 2007*




*Source: Montenegro Selected Issues, IMF, 2008*

## 2.2. FDI legal regulations, current regulations and short background

In 1965, former SFRYU became the first socialist country that had permitted foreign investments. However, besides the declaratively stated principle that allowed foreign investments, there were many barriers in the practice that had limited foreign investments. Therefore, in practice, foreign direct investments were realized only as joint investments with a domestic legal entity.

Economic crisis from the eighties had changed this practice and it was realized that foreign capital is necessary for a faster economic development. New Property Act was adopted ("Official Gazette of SFRYU", no. 6/80), which has been changed and amended twice. Property rights were granted to the foreign citizens for the first time in 1990 with the changes and amendments of the Property Act. Since then, foreign citizens that are engaged in business activities can acquire property rights on property that is necessary for performing of their activities. However, some limitations remained regarding the disposal of property by individuals. In order to protect the public interest it was established that a foreign citizen can not have ownership rights on property that is located in specific areas.

During the mid nineties, new Law on Foreign Investments was introduced ("Official Gazette of SRYU, no. 79/94 and 29/96), while Montenegro introduced its first Law on Foreign Investments ("Official Gazette of RoM, no. 52/00) in 2000, which has been changed and amended in the middle of last year ("Official Gazette of RoM, no. 36/07).

Montenegrin Law on Foreign Investments meant a step forward compared to the Law from the SRYU period. Key advantages of the new Law are the following:

- Simplified procedure for the authorization of the agreement on foreign investment (the old law required the authorization of the Federal Ministry for Economic Relations for the foreign investments agreement, while the new Law requires only registering at the Agency for Foreign Investments);
- Foreign company is the company with over 25% share of foreign capital (in the old law it was 51%);
- Extended activities in which the foreign citizen can have a majority share, because in the old Law this was forbidden for some activities, such as public information, telecommunications, fabrication of weapons, etc. Today, the limitation remains only for the fabrication of weapons;
- Concession issue is to be defined by a special law, which has not been adopted yet;
- Rights of foreign investors have been underlined (national treatment, tax treatment which is not less favorable than the one for domestic entities, legal security, protection of foreign investors property) and
- Law has been significantly shortened, its transparency and understandability have been increased for the foreign investors.

The following legal regulations are relevant for the foreign investment process:

- Decree on establishing public administration authorities responsible for providing explanations and opinions in the process of obtaining property rights for foreign entities that are performing their activity in Montenegro (Official Gazette of RoM, 34/05) – prescribes manner and procedure in which a foreign legal entity can acquire property that is necessary for performing of the activities of a foreign entity
- Law on State Survey and Real Estate Cadastre that defines a legal basis for registering, change, limitation and termination of property rights.

In general, Montenegrin regulation on foreign investments is very liberal. There are no barriers for the repatriation of profit, dividends, interests and founding capital. Foreign investor can manage the company or transfer the management right to another party. National treatment is guaranteed to the foreign investors. Foreign investments can be in the form of money, securities, goods, services or rights. Domestic physical persons can acquire a treatment of the foreign investor if they have lived abroad for a minimum of one year prior to the investment. Foreign investors are guaranteed the protection from expropriation of property, but if the expropriation is required for the national interest, they have the right on the compensation in the amount of the full market price. In case of the change of the Law on Foreign Investment after the investment has been made, foreign investors have the right to apply solutions that are more favorable for them from the old or new law.

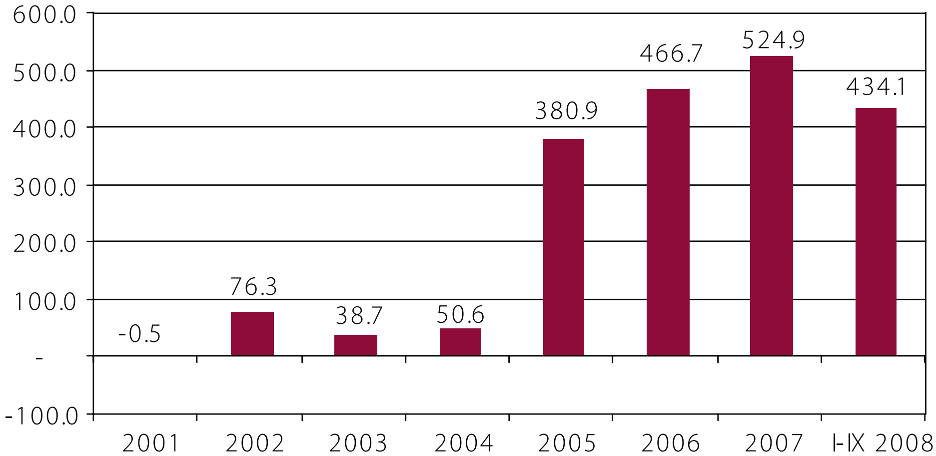
According to the current regulation, foreign entities can without limitations acquire property rights on apartments and business premises, while the ownership of land is restricted to legal entities for the performing of their activities. Administrative court of Montenegro has enacted a decision in the mid 2007, that according to the provisions of the Property Act, foreign physical person can not acquire land ownership rights. This has opened the issue of legal insecurity, since a large number of foreign persons had already registered themselves as the land owners. This issue is solved differently in different countries, and the Stabilization and Association Agreement envisages that Montenegro shall provide a national treatment to the EU member countries regarding the acquisition of property on its territory. According to the Decree on establishing public administration authorities responsible for providing explanations and opinions in the process of obtaining property rights of foreign entities that are performing their activity in Montenegro (Official Gazette of RoM, 34/05) opinion whether the property acquired by the agreement is necessary for performing activities of the foreign legal entity is given by the Ministry of Finance upon the request of the competent authority, i.e. interested party. Also, it should be underlined that the work on the new Property Act is underway, which should solve these issues.

## 2.3. FDI flows

Montenegro has been recording a very high inflow of net foreign direct investments since 2005 (graph no. 8) and it is placed among the top European transitional economies. In order to attract foreign investors, Montenegro has created an attractive legal framework that includes "national treatment of foreigners", which means that foreign investors have the equal treatment as domestic investors. The Law is also envisaging other measures that are encouraging investors to invest in Montenegro.

In the period 2001 - September 2008, inflow of FDI in Montenegro amounted cumulatively 2.89 billion Euros. In the future period, realization of important infrastructural projects is expected, as well as projects in tourism and other areas. It is certain that Montenegro will continue to have a high inflow of FDI considering significant, still unexploited, potential for attracting FDI, particularly in tourism (Valdanos, Jaz, Buljarica, Velika plaža, etc.).

*Graph no. 8 – Net inflow of FDI (mill Euros)*




*Source: CBM*

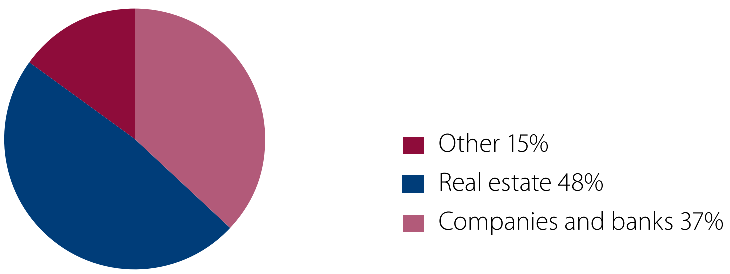
*Table no. 1 – Gross inflow of FDI in euros*

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | Jan-Sept 2008 |
|---|---|---|---|---|---|---|---|---|
| Investments in companies and banks | 4.704.350 | 76.386.802 | 38.482.634 | 41.783.604 | 322.392.288 | 252.076.604 | 377.589.177 | 226.292.346 |
| Sold share in other domestic comp. | | | | | | 6.063.943 | - | 459.955 |
| Sale of property abroad | | | | | | 1.162.289 | 61.930 | 1.483.835 |
| Intercompany debt | | | | | | 45.146.178 | 115.674.823 | 172.629.042 |
| Decrease of capital abroad | | | | | | 2.004.873 | - | 2.211.965 |
| Sale of property | - | - | 5.315.350 | 10.868.089 | 70.333.388 | 337.879.347 | 514.357.980 | 265.421.078 |
| TOTAL | 4.704.350 | 76.386.802 | 43.797.984 | 52.651.693 | 392.725.676 | 644.333.236 | 1.007.683.910 | 668.498.221 |

*Source: CBM*

*Note: Since 2006, methodology has been changed for the registering of FDI inflow, therefore until 2006, intercompany debt was included in the Investments in companies and banks*

*Graph no. 9 – Structure of FDI inflow in the period 2006 – September 2008 (%)*




*Source: CBM*

Considering the FDI inflow the following can be concluded:

- Significant part of the FDI inflow relates to the real estate (particularly in 2006 and 2007),
- Predominant FDI are still those related to the privatization process, while the greenfield investments are still relatively small[4],
- Highest amount of FDI were in the area of tourism, banking, industry and telecommunications
- Structure of FDI has been recovering gradually in 2008, with the decrease of the FDI share in the real estate sector and the increase of the FDI in the real sector.

Numerous analyses have shown that there is a direct and significant interaction between the foreign direct investments and economic growth. However, the structure of investments is more important than the amount of incoming funds. It is evident that the biggest interest of investors in the past couple of years has been in the area of real estate. Therefore, in 2006 out of the total inflow of foreign directs investments, 52.6% related to the real estate. Investments in the real estate have significant positive effects on the Montenegrin economy – direct, by filling of the budget through the payment of different administrative fees (construction and other permits), one-time basis employment of the domestic construction force, consumption of domestic products required for the construction, etc., and indirect – e.g. in cases of productive investments of funds obtained from the sale of real estate by the residents. However, investments in companies and banks are much more important and have a greater impact on the economic growth and productivity. This leads to the creation of new jobs and the increase of employment in the long term. Therefore, it is encouraging that foreign investments in companies and banks are on the increase. There is a significant increase of inflows in the form of intercompany debt (graph bellow illustrates the intercompany debt in the pillar "Other", which is 50%of "Other investments" for the nine months of this year)

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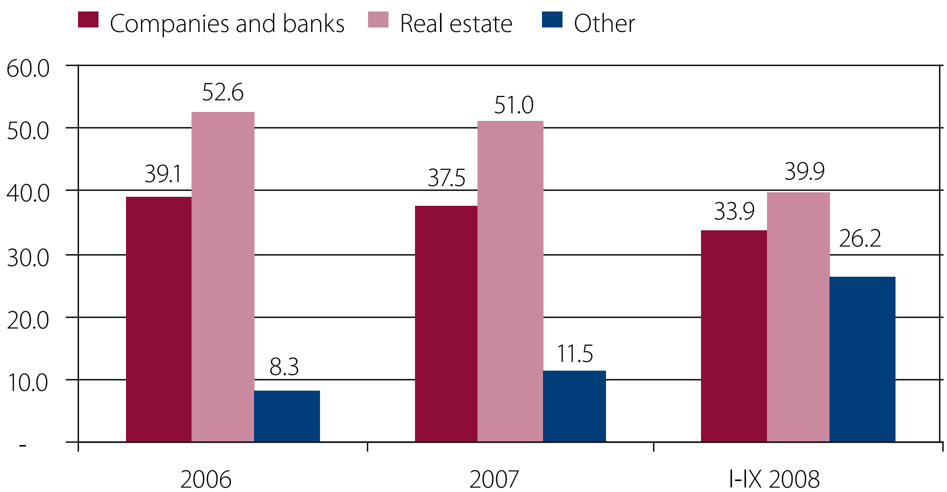
[4] *According to the IMF estimates, green field investments represented less than 10% of the total foreign direct investments (Source: Montenegro Selected Issues, IMF, 2008).*

*Graph no. 10 – Movements of the FDI inflow structure in the period 2006 – September 2008 (%)*




*Source: CBM*

## 2.4. Regional structure of the FDI inflows

Regarding the origin of the foreign direct investments, it should be considered that the inflow of foreign direct investments is monitored through the ITRS[5] system. This means that the country where the money came from is registered as the country of origin. In the modern environment of global business it doesn't mean that this is always a true country of origin of the foreign direct investment. Multinational companies have their accounts in the large number of countries and they can make payments from any country. This is a problem not only for Montenegro, but for other countries as well.

Regarding the regional distribution of foreign direct investments, the situation is more favorable if the FDI inflow comes from different countries, because in that case the country of foreign capital inflow is less affected by adverse movements on individual markets. Considering that Montenegro had foreign investors from 107 countries (from 2001) the current situation can be assessed as very favorable. Investments from 46 countries amounted less then one million euro; therefore, investors from 61 countries have invested more than one million euros, which is a very high regional diversification of the foreign direct investments inflow. Situation is somewhat less favorable if we look at the total amount of inflows from 10 countries that have invested the most in Montenegro, since they represent 73% of the total gross inflow of the FDI. From the total gross

[5] *ITRS – International transaction reporting system.*

inflow of FDI in the period 2001 – June 2008, only 77.77 million euros, or 2.89% has been paid from the off-shore destination.

The following table shows ten biggest foreign investors countries in the period 2001 – June 2008. List of all foreign direct investors' countries is included in the Annex.

*Table no. 2 – Ten biggest foreign investors countries*

| FDI country of origin | Inflow in mill. Euro |
|---|---|
| Russian Federation | 348.5 |
| Hungary | 323.4 |
| Great Britain | 257.2 |
| Switzerland | 227.4 |
| Cyprus | 213.5 |
| Austria | 199.2 |
| Slovenia | 115.3 |
| Germany | 112.7 |
| Serbia* | 110.3 |
| USA | 77.1 |
| Total 10 countries | 1984.6 |

** Part of foreign direct investments from Serbia from the period of joint state has not been registered as FDI.*

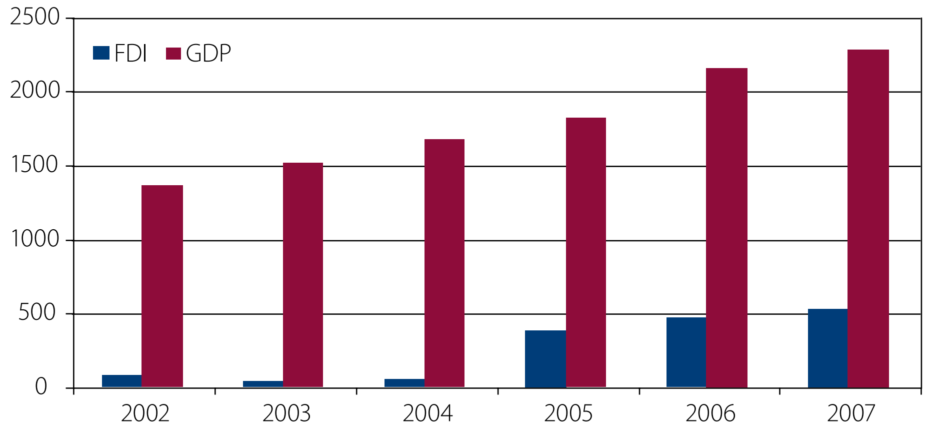
*Source: CBM*

## 2.5. Effects of the FDI inflow

FDI inflow is the factor that has largely affected the economic development. Montenegro doesn't have sufficient sources of accumulations, therefore it was largely oriented towards the inflow of foreign accumulation. GDP growth has been affected by many factors, the inflow of FDI being the most important one. Graph no. 11 illustrates the link between the movements of FDI inflow and GDP movements. Graph is clearly confirming the previous assumption that the FDI are one of he most important drivers of economic growth.

Also, it has to be considered that there is a certain time lag between the realization of the FDI and its effect on the economic growth. This is due to the fact that a certain time period is needed for the activation of the investment, which means that in the next period significant effects of the activation of current FDI can be expected.

*Graph no. 11 – Interdependency between the FDI inflow and GDP (mill. euro)*

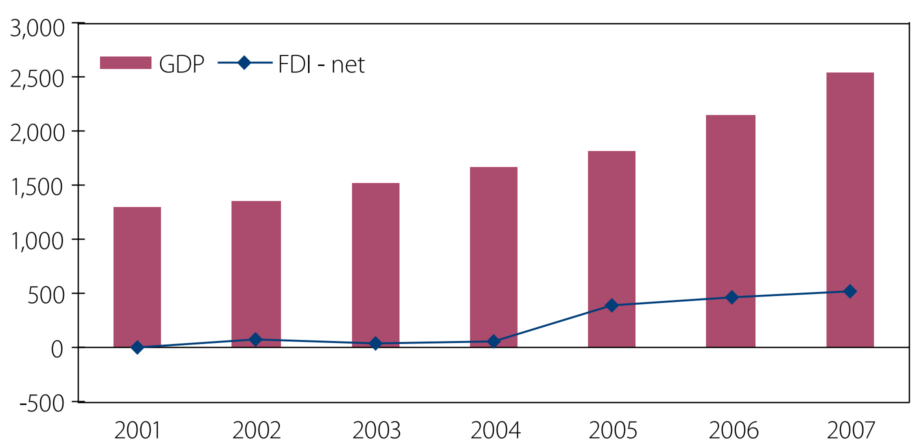



*Source: CBM and Monstat*

*Note: GDP for 2007 is an estimate*

Both variables, FDI net inflow and GDP nominal value show a similar, upward trend. Considering that the data is available only for the past seven years, it is not possible to perform the stationarity test. However, the graph shows that these are non-stationary series which in perspective should be analyzed through the growth rates. GDP and net FDI in Montenegro show a strong high and positive correlation between these two variables – 0.92 (considering that the correlation ratio ranges between -1 and 1), which is in line with prevailing economic theory on positive impact of the FDI on the economic growth (Romer, 1993), whose main conclusion is base don the idea that the inflow of FDI enables quality transfer of technology and know-how, thus increasing productivity in the countries that are receiving FDI.

*Graph no. 12 - FDI and nominal GDP trends in Montenegro 2001-2007*



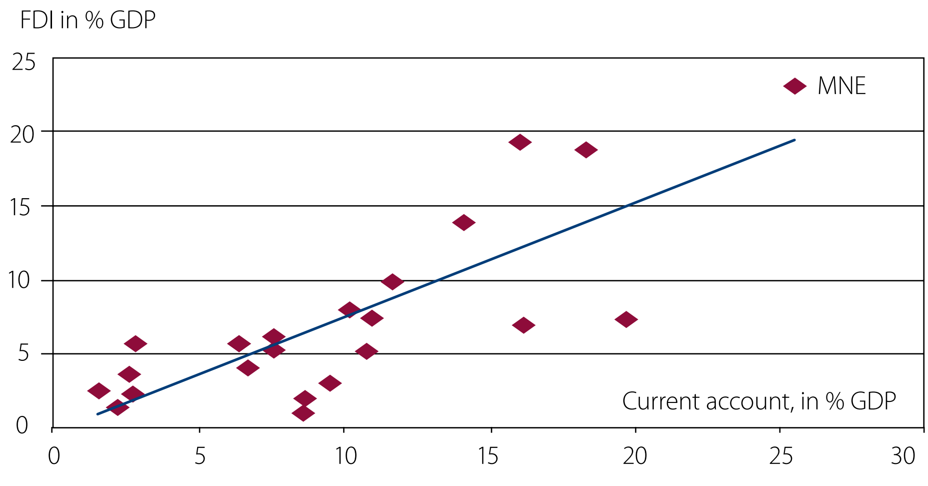

*Source: CBM, 2008*

High inflow of FDI had significant impact on the growth of deposits and thus the development of the banking system, as well as the capital market. Impact on the growth of deposits was two-sided. On one hand, as the result of sale of property and real estate, part of the money was deposited in the banking system in the form of deposits. On the other hand, through the process of foreign investments, credible foreign companies have arrived on the Montenegrin market and became important clients of the banking system, both as depositors and loan users.

Foreign investment process had a significant impact on the budget. Foreign investment process has impacted on one hand the growth of economic activity, and therefore the growth of tax revenues, and on the other hand, significant number of jobs has been maintained due to the foreign investment process, therefore relieving the state funds.

However, foreign direct investments had some negative impacts. For example, FDI had a direct impact on the increase of the deficit of the balance of payment current account. On one hand, this is a result of the accelerated growth, because the foreign investors have made additional investments in the companies that they have purchased in order to increase their competitiveness. For example, foreign investors that have purchased hotels have imported construction material, furniture, etc. for the reconstruction and modernization of the hotels. After a specific time period, these investments should have important positive effects on the economic growth. Second flow was due to the fact that many individuals have increased their living standards thanks to the sale of real estate. This has resulted in the large growth of the car sales, furniture sales, etc. These are all permanent consumption goods that are not produced in Montenegro, therefore the result was the increase of imports. Interdependency of foreign direct investments and import is typical not only for Montenegro, but also for other transitional economies. Movements of the correlation between the FDI inflow and the increase of the current account deficit is presented in the following graph:

*Graph no. 13 – Correlation between the FDI inflow and the deficit of the balance of payment current account*




*Source: Montenegro Selected Issues, IMF, 2008*

Excessive investments in some coastal municipalities without taking care of the protection of the natural environment have, to the certain extent, degraded the environment which so far has been a significant comparative advantage of Montenegro.

In the past couple of years foreign investors have been interested in the sector of so called non exchangeable goods – real estate, banking, telecommunications, retail trade, which all have a very small impact on the Montenegrin export (except the investment in tourism). From the development perspective, most important are the investments that are encouraging growth of productivity and technology, which are still small in Montenegro.

Finally, it should be considered that the movement of foreign direct investments has been largely affected by the positive global conjecture. Global economic crisis that affected large number of companies throughout the world, which will lead to the negative effect on the wellbeing, will inevitably have a negative impact on the attraction of FDI in the next period.

## 2.6. Perspectives of the FDI in the next period

All forecasts indicate that the global financial crisis will impact foreign direct investments flows in 2009. Forecasts on the decrease of inflows differ, ranging from 30% to 50%. Considering Montenegro, potential for the inflow of FDI has not been exploited and a high inflow of FDI should be expected. Certainly, it can be concluded that a number of foreign investors that have planned to come to Montenegro have postponed their investments for the future period due to the fact that the global availability of loans will be decreased in the next year and they will be more expensive. It should be recognized that the majority of foreign investments are financed by loans and that global environment is not favorable. This doesn't mean that these investors will go somewhere else or permanently loose interest in Montenegro. They will just postpone their investment for a certain period.

It is realistic to expect that Montenegro will continue to have a high inflow of FDI in the next year and it will remain among the top European economies in transition. Financial means have already been provided for a majority of foreign investments. Also, there is a big interest and announcements of investments from investors from numerous countries (box no. 1). However, announcements and expressed interest don't necessarily mean that the subject investment will be realized.

## Box no. 1 – Announcements and expressed interest of foreign investors

1. **Hungarian Trigranit** is interested to invest in the construction of exclusive settlement in Velika plaža in Ulcinj, and is also interested in investing in some other locations on the coast and Skadar Lake.
2. **Representatives of the consortium of several foreign companies** (London's "Deloitte&Touche", German "Deutsch bank", Israeli company "Shafira" and several investors from Italy and western European countries) have expressed interest for the project for expanding coastal area in Igalo for 3.3 km and construction of 35 new hotels.
3. **Arab investment group Capital Investment** has expressed interest for investment in several facilities in Podgorica. Sheiks from Abu Dhabi have already expressed interest for Ulcinj's Velika plaža, a project worth tens of billions dollar for the construction of a tourist complex.
4. Representatives of the Government of Montenegro and consortium led by the Invest bank Montenegro have signed the purchase/sale and investment agreement for the Army-medical center in Meljine. The agreement envisages that the new owner shall initially invest around 120 million euros and around 100 million euros in the next five years.
5. **Company of the Canadian billionaire Peter Munk, "Adriatic Marinas"** is planning to construct an exclusive nautical center in the next four year, worth 600 million euros.
6. **Public Czech electricity company "Čez"** is interested in the Electricity Company of Montenegro. Interested in this company is also a Belgian company "Bel".
7. **Company "Sonuba Montenegro"** is considering the construction of exclusive tourist complex in the bay Maljevik near Sutomore. The investor is planning to construct hotels in the area of 80 thousand square meters, apartments totaling 130 thousand square meters and villas for rental totaling 50 thousand square meters. They will construct a marina and complementary facilities with four and five stars.
8. **Russia electricity company RAO UES** is interested in investing in the energy sector. Preferred investment model implies establishment of a joint company – combined holding, which would construct new energy sources and revitalize the existing capacities. Investor in Montenegro would be a daughter company of the Russian electricity company - Inter RAO UES.
9. **Biggest American company for the construction of golf terrains and hotels, Lendmark Lend** is interested in the construction of hotels and golf terrains in Ada Bojana, Jaz, Velika plaža and Buljarice.
10. **Irish company "United Entertainment Partners"** is considering building a three star hotel in Kotor.
11. **Duch company "Limon Investment"** is considering building luxurious golf terrains on the Luštica peninsula.
12. **Famous Spanish-German corporation "Iberostar"** and its Montenegrin partner "Belvi hotels group" are planning to purchase ten more hotels in Montenegro which will make them the biggest hotel chain in the Adriatic.
13. **Scandinavian corporation "Wild Beauty Development"**, that is, its Montenegrin branch "KGM corp", is planning to develop a tourist complex and a golf terrain in the bay of Dobreč in Luštica.

14. **Slovenian "Petrol bonus" and Montenegro bonus** are planning to open at least twenty gas stations in the next five year, build warehouse for oil derivatives, modern laboratory and introduce the system of storage of obligatory reserves and gasification of Podgorica.
15. **Investors form Austria** have prepared a feasibility study for the construction of cable car from Kotora to Lovćen, and to participate in this investment
16. **London's "Liberty Group"** is considering building of the rolling mill.
17. **Egyptian investor "Joud Real Estate Fund"** and their subsidiary company Monte Mena from Podgorica have announced a sale of 160 apartments and 23 villas that wil be constructed on the attractive location Skočiđevojka, near Sveti Stefan
18. **Mirax group** is constructing a residential and hotel block - Astra Montenegro, in Budva that will include two luxury hotels and 40 luxury villas on 66 thousand square meters. Also, 570 rooms and apartments in two hotels, where one will have 27 floors, both hotels will have 6 stars.
19. Serbian businessmen Filip Cepter has announced that he intends to invest 150 million euros in the Institute "Dr. Simo Milošević" in Igalo, if he wins in the privatization tender.

# 3. FINAL REMARKS

Foreign investments in the world have recorded a significant increase during the last years. Therefore, foreign direct investments have increased from 400 billion dollars in 2000 to 1833 billion dollars in 2007.

Most forecasts show that there will be a slow down of the foreign direct investments inflow in the next year, due to the global financial crisis.

Foreign direct investments are one of the most important drivers of economic development in Montenegro. Prior to 2005, Montenegro was not an attractive destination for the foreign investors, however, from 2005, it became one of the most attractive European destinations. From 2001, cumulative inflow of FDI amounted 2.89 billion euros. Considering the net inflow of FDI per capita in the period 2005 – 2007, Montenegro was second in the group of European transitional economies, right after Estonia. Regarding the share of FDI net inflow in the GDP in the same period, Montenegro was first in the group of European transitional economies. During the first nine months, net inflow of FDI was by 15% greater compared to the same period of last year, therefore it can be concluded that the record inflow of FDI from the previous year will be exceeded.

High inflow of FDI is present if the share of FDI in the GDP is greater than 10%. During the past three years this percentage in Montenegro amounted 20%. Factors that had the biggest impact on the inflow of FDI were the privatization process and attractiveness of the Montenegrin coast.

Structure of FDI is still dominated by the investment in real estate, with the gradual increase of the investments in companies. "Greenfield" investments are still not sufficiently present, however experiences of other transitional economies shows that the share of these investments begins to grow significantly only after the finalization of the privatization process. Sectors that have attracted majority of FDI are: banking, tourism, industry and telecommunications.

Regarding the regional structure, it can be concluded that there is a high diversification, because the investors came from 107 countries. This situation can be assessed as favorable, because the country of inflow is less dependent from the conjecture on specific foreign markets if the investors are coming from a large number of different countries.

Legal regulation in Montenegro is very liberal and favorable for the attraction of FDI. However, it should be considered that there is a strong competition for the attraction of FDI on the international market and regulations are very liberal in all countries that are trying to attract FDI. Considering the regulation, labor costs. Incentives for the attraction of FDI, these are more or less similar in majority of economies in transition. Therefore, in the next period, important factors will be macroeconomic stability, market functioning, local business barriers, functioning of the legal system and institutions, etc.

Inflow of FDI is a factor that had a great impact on the fast economic growth and establishment of macroeconomic stability. It had a very positive effect on the employments and increase of budget revenues and revenues of public funds. FDI had significantly impacted the acceleration of some sectors, such as: tourism, construction, banking, etc. High growth of foreign direct investments is also one of the reasons for a very high deficit of the balance of payment current account. Global financial crisis that will have an impact on the FDI worldwide will definitely have an impact on Montenegro. However, it is realistic to expect a relatively high inflow of FDI in the next year and that Montenegro will again be among the top European transitional economies considering the FDI.

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# Annex – Regional structure of FDI gross inflows

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | I-IX 2008 | Total |
|---|---|---|---|---|---|---|---|---|---|
| Australia | | | 226.022 | | 134.925 | 1.834.575 | 1.971.415 | 1.305.319 | 5.472.255 |
| Austria | 10.827 | 1.719.931 | 1.887.372 | 2.259.000 | 73.455.563 | 29.841.825 | 60.765.059 | 34.470.294 | 204.409.871 |
| Belgium | | 1.016.722 | 457.598 | | 9.900 | 1.399.797 | 1.737.626 | 1.298.058 | 5.919.701 |
| FYR Macedonia | | | 70.567 | | 50.172 | 532.591 | 3.261.970 | 669.895 | 4.585.195 |
| Bosnia and Herzegovina | 128.520 | | 1.198.061 | 178.795 | 4.466.600 | 1.104.925 | 5.137.784 | 6.194.642 | 18.409.327 |
| Virgin Islands (USD) | | | | | | 19.955 | 229.260 | 285.000 | 534.215 |
| Virgin Islands (GBP) | | | 218.893 | 700.000 | 1.035.078 | 1.994.471 | 27.106.997 | 12.767.528 | 43.822.967 |
| Bulgaria | | | | 1.750.000 | 730.000 | 213.200 | 164.260 | 3.029.870 | 5.887.330 |
| Denmark | | 1.859.446 | | 78.987 | 767.510 | 10.323.054 | 9.692.744 | 7.603.341 | 30.325.082 |
| Estonia | | | 269.450 | 1.810.185 | 1.727.651 | 4.861.444 | 18.556.382 | 8.889.233 | 36.114.345 |
| France | | | 36.000 | 215.599 | 11.756.512 | 6.202.067 | 8.671.421 | 4.243.977 | 31.125.575 |
| Greece | | 14.885.583 | 49.925 | 174.791 | 133.873 | 551.041 | 14.819.700 | 25.449.742 | 56.064.655 |
| Netherlands | 1.695 | 30.000 | 1.051.083 | | 170.669 | 4.389.001 | 17.334.920 | 16.384.554 | 39.361.923 |
| Hong Kong | | | 62.627 | 90.758 | 74.875 | 776.257 | 2.029.683 | 2.200.739 | 5.234.938 |
| Croatia | | 1.000 | 91.980 | 57.490 | 775.849 | 5.531.819 | 5.962.669 | 10.645.961 | 23.066.768 |
| Ireland | | | | 164.950 | 3.909.477 | 17.037.055 | 28.452.872 | 7.210.593 | 56.774.947 |
| Italy | -516.399 | 102.260 | 73.067 | 269.000 | 6.343.490 | 6.156.066 | 11.872.384 | 1.421.556 | 25.721.423 |
| Israel | | 757.100 | | 486.630 | 134.893 | 477.723 | 9.585.439 | 2.006.338 | 13.448.124 |
| Japan | | | 668.561 | 1.120.000 | 2.363.229 | | 10.514.822 | 1.811.406 | 16.478.018 |
| Canada | | | 29.970 | 143.798 | 79.190 | 1.603.150 | 2.873.983 | 1.217.820 | 5.947.912 |
| Cyprus | | 71.456 | 1.815.821 | 2.015.284 | 3.449.577 | 18.636.978 | 108.994.331 | 113.023.001 | 248.006.448 |
| Kyrgyzstan | | | | | 124.563 | 816.011 | 1.434.996 | 277.960 | 2.653.530 |
| Kiribati | | 11.000 | | | | | 94.000 | | 105.000 |
| Lesotho | | | | 15.000 | | | | | 15.000 |
| Latvia | | | 199.925 | 3.730.673 | 1.907.343 | 23.815.176 | 21.673.548 | 12.038.141 | 63.364.805 |
| Lebanon | | | 559.353 | | | | 98.582 | | 657.935 |
| Lichtenstein | | | | 200.925 | 1.097.108 | 10.924.301 | 3.785.856 | 7.865.397 | 23.873.586 |
| Lithuania | | | | 299.825 | 400.000 | 17.683.358 | 17.716.241 | 8.846.423 | 44.945.847 |
| Luxembourg | | | 717.581 | 13.966 | 1.381.792 | 10.577.451 | 6.668.826 | 3.283.168 | 22.642.783 |
| Hungary | | | | 2.402.985 | 147.668.444 | 118.012.036 | 29.987.055 | 26.171.890 | 324.242.410 |
| Germany | 1.749.714 | 20.893.208 | 5.484.102 | 7.774.510 | 5.063.463 | 26.944.134 | 38.504.162 | 17.389.160 | 123.802.453 |
| Norway | | | 84.937 | 6.101 | 77.000 | 3.613.859 | 7.870.980 | 4.534.987 | 16.187.864 |
| Panama | | | | 1.299.973 | | 646.930 | 2.054.531 | 6.718.063 | 10.719.497 |
| Russian Federation | 836.874 | 20.000 | 220.317 | 669.760 | 14.030.235 | 82.534.966 | 187.388.328 | 101.096.226 | 386.796.706 |
| USA | 1.137.363 | 603.126 | 238.194 | 1.422.025 | 4.637.394 | 19.899.907 | 41.952.448 | 13.464.454 | 83.354.910 |
| Slovakia | | | | 100.000 | | 554.685 | 417.851 | 41.995 | 1.114.530 |
| Slovenia | 1.335.763 | 3.753.038 | 13.233.562 | 14.068.572 | 22.899.356 | 9.877.487 | 40.249.744 | 9.990.023 | 115.407.545 |
| Serbia | | 521.471 | 621.316 | 1.825.002 | 7.326.408 | 31.773.166 | 43.009.959 | 38.192.106 | 123.269.429 |
| Switzerland | 19.993 | 1.170.181 | 7.568.283 | 6.603.230 | 14.601.067 | 88.473.434 | 75.111.921 | 52.235.131 | 245.783.240 |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | I-IX 2008 | Total |
|---|---|---|---|---|---|---|---|---|---|
| Sweden | | | 64.988 | 11.795 | 830.257 | 1.940.873 | 1.621.599 | 370.165 | 4.839.676 |
| Ukraine | | | | | 88.175 | 1.329.233 | 3.042.960 | 2.682.389 | 7.142.757 |
| Great Britain | | 28.971.281 | 6.598.430 | 692.085 | 36.098.424 | 65.233.576 | 70.426.933 | 60.581.839 | 268.602.568 |
| Belize | | | | | 70.000 | 690.000 | 1.006.152 | 1.231.068 | 2.997.219 |
| Barbados | | | | | 10.000 | 550.000 | 17.587.200 | | 18.147.200 |
| Poland | | | | | 25.000 | 70.636 | 703.487 | 278.163 | 1.077.285 |
| Spain | | | | | 99.925 | 742.921 | 1.705.107 | 900.740 | 3.448.693 |
| Bermuda | | | | | | 1.900.173 | | 45.000 | 1.945.173 |
| Iceland | | | | | | 1.914.738 | 3.175.597 | 1.573.476 | 6.663.810 |
| New Zealand | | | | | | 2.230.910 | 1.380.244 | 203.493 | 3.814.647 |
| Czech Republic | | | | | | 1.074.513 | 1.161.984 | 1.153.610 | 3.390.107 |
| Malta | | | | | | 129.970 | 2.634.009 | 193.329 | 2.957.307 |
| Turkey | | | | | | 697.200 | 3.577.214 | 5.269.931 | 9.544.345 |
| Albania | | | | | | 84.700 | 192.770 | 502.635 | 780.105 |
| Bahrain | | | | | | 107.213 | | 229.915 | 337.128 |
| Eritrea | | | | | | 7.825 | | | 7.825 |
| South Korea | | | | | | 10.000 | 86.586 | | 96.586 |
| Cuba | | | | | | 10.000 | 89.000 | | 99.000 |
| Monaco | | | | | | 345.028 | 1.286.318 | 100.028 | 1.731.374 |
| Peru | | | | | | 30.000 | | | 30.000 |
| Saudi Arabia | | | | | | 10.676 | 669.823 | | 680.500 |
| Sierra Leone | | | | | | 50.000 | | | 50.000 |
| Romania | | | | | | 561.541 | 27.600 | 1.844.675 | 2.433.816 |
| Bolivia | | | | | | 292.946 | 34.840 | | 327.786 |
| Kazakhstan | | | | | | 157.500 | 50.015 | 346.191 | 553.706 |
| Finland | | | | | | 317.103 | 612.765 | 363.124 | 1.292.992 |
| Macao | | | | | | 17.394 | | | 17.394 |
| Mauritania | | | | | | 54.140 | | | 54.140 |
| Seychelles | | | | | | 37.591 | 391.975 | 3.179.880 | 3.609.446 |
| Vatican | | | | | | 14.882 | 67.980 | | 82.862 |
| Madagascar | | | | | | 200.000 | | | 200.000 |
| San Marino | | | | | | 780.830 | | | 780.830 |
| China | | | | | | 219.904 | 377.054 | 573.564 | 1.170.521 |
| Guatemala | | | | | | 329.365 | | | 329.365 |
| India | | | | | | 171.925 | | | 171.925 |
| Swaziland | | | | | | 20.100 | 467.302 | | 487.402 |
| Turks and Caicos Islands | | | | | | 1.449.600 | 1.529.245 | | 2.978.845 |
| United Arab Emirates | | | | | | 3.828 | 12.694.942 | 12.372.469 | 25.071.239 |
| Uzbekistan | | | | | | 589.875 | | | 589.875 |
| Armenia | | | | | | 70.000 | 45.000 | 12.900 | 127.900 |
| Sao Tome and Principe | | | | | | 202.700 | 403.955 | | 606.655 |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | I-IX 2008 | Total |
|---|---|---|---|---|---|---|---|---|---|
| Sent Vincent and Grenadines | | | | | | 47.931 | | | 47.931 |
| Kuwait | | | | | | | 899.913 | | 899.913 |
| Belarus | | | | | | | 114.980 | 1.064.581 | 1.179.561 |
| Portugal | | | | | | | 60.000 | | 60.000 |
| Philippines | | | | | | | 42.785 | | 42.785 |
| Cayman Islands | | | | | | | 666.784 | 274.974 | 941.758 |
| Mauritius | | | | | | | 6.000.000 | 395.000 | 6.395.000 |
| Morocco | | | | | | | 6.490 | | 6.490 |
| Marshall Islands | | | | | | | 246.550 | 39.700 | 286.250 |
| Reunion | | | | | | | 210.000 | | 210.000 |
| Ivory Coast | | | | | | | 45.500 | | 45.500 |
| Tunisia | | | | | | | 135.620 | | 135.620 |
| Afghanistan | | | | | | | 3.641.530 | 60.000 | 3.701.530 |
| Bahamas | | | | | | | 50.000 | 2.317.258 | 2.367.258 |
| Singapore | | | | | | | 223.882 | 2.392.945 | 2.616.828 |
| Surinam | | | | | | | 7.206 | | 7.206 |
| Georgia | | | | | | | 124.515 | | 124.515 |
| Taiwan | | | | | | | 50.925 | | 50.925 |
| Gibraltar | | | | | 320.689 | | 57.500 | | 378.189 |
| South Africa | | | | | | | 7.100 | | 7.100 |
| Jordan | | | | | | | 29.895 | | 29.895 |
| Andorra | | | | | | | 258.335 | | 258.335 |
| Anguilla | | | | | | | | 185.000 | 185.000 |
| Egypt | | | | | | | | 3.460.035 | 3.460.035 |
| New Caledonia | | | | | | | | 12.537 | 12.537 |
| Zambia | | | | | | | | 13.620 | 13.620 |
| Other | | | | | 22.400.000 | | | | 22.400.000 |
| TOTAL | 4.704.350 | 76.386.802 | 43.797.984 | 52.651.693 | 392.725.676 | 644.333.236 | 1.007.683.909 | 668.498.221 | 2.890.781.871 |