

The impact of global economic crisis on the operations of Montenegrin economy

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It is more than obvious that the world has become a global village. No economy is fully independent. The most influential countries, such as the United States of America, Canada, China, India, Russia, Japan, Great Britain etc., depend on global trends and oscillations in the world market.

There is an everyday dispute among world leaders, experts, managers of financial corporations, on how deep this crisis is going to impact the world economy. According to the opinion of the majority, it is biggest since the Great Depression from the early 30s of the last century. Financial crisis led to a serious crisis and recession, hence it resulted in deceleration of economic activities and exhaustion of one model of economy. From many countries, including ours, we can almost everyday hear the news on dismissal of workers, reduced production, limitation of spending etc., which represent basic elements and indicators of recession.

Since the crisis emerged, the situation has significantly changed, both in the country and abroad. The money has become more expensive, there are much less foreign investments, the real sector is gradually entering the recession in the majority of developed countries, which makes export more difficult for domestic producers. In addition to that, the investors are now, and they will be even more in the forthcoming period, much more cautious when it comes to investing their funds.

What is the response to recession?

Financial crisis and global recession in the world are just a chance for the development of entrepreneurship. Montenegro, dependent on import and being a small economy, just like many countries with similar features, can ensure mitigation of the crisis consequences by stimulating and developing the entrepreneurship area. Opening of small and medium enterprises would allow the creation of products intended to fulfill the needs of the population and, at the same time, it would reduce dependence on the import and ensure economic development (Adizes 2009). In the environment of pessimistic reports on the current situation and future perspectives of the world economy, the entrepreneurship and entrepreneurs appear as a response to the requirements of recession, growth and development. The entrepreneurs use changes as a trump card and they use them in the right way and at the right place in order to achieve their business breakthroughs. Upon that, technological improvements and innovations, although significant, are not the only basis for

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the overall technological progress. They can also include organizational improvements, innovations of marketing or administrative procedures, which lead to business success, that is, to the changes in the environment in the form of creative destruction. All these changes are carried out in the purpose of placing the high quality goods and services at acceptable prices on the market.

The job opportunities are no longer in the public or local sector, but they are rather in the private sector. The private sector is much more flexible and that makes it more resistant to recessions. That is the case of a Japanese steel processing plant, which faced a reduced demand of its products from the basic assortment, and virtually over night it was reorganized in order to preserve its employees and its profit. The plant identified the demand on the market, reoriented its production, and now one half of the plant produces season salad, which it places on the local market. As you can see, it was a diametrical restructuring.

That kind of flexibility is not achieved over night. It is obvious that the complete program had been designed as an alternative solution long before the recession occurred. In that regard, one must bear in mind that the crisis could not be "survived" without a strategic and fundamentally new way of thinking and approach. For each product or service, program, project - there has to be an alternative. An optimal alternative always has to be analyzed in the environment of the recession as the one which will ensure efficacy and effectiveness when the recession is over, and the normal economic situation takes its place.

Also, the employees in the government and in the local authorities may have their opportunities in launching their own businesses. The current crisis and possible threats that the employees could be dismissed from their jobs, in the conditions when the chances for getting a new job are scarce, put us all in a temptation and check the character and strength of a personality. Those who are positive, proactive, and who believe in the power of the entrepreneurial spirit and their own ability, think of turning that loss of a job into a new challenge and new opportunity, launching their own businesses and finding alternative jobs. An attitude that can often be heard – that the global crisis is in fact a new opportunity – describes just those who are thinking of starting their business and test themselves in the entrepreneurship. Upon that, one must bear in mind the following:

- You must plan!
- Invest in yourselves now!
- Maintain and take care of the long-term investments
- Act like an entrepreneur and an innovator
- Spend less
- Reexamine your liaisons, contacts and
- Don't panic!
- Create a demand
- Separate your company from your personal or family expenditures

Running your own business is much more complex than working for somebody else. If you lose your business or fail, you can lose much more than just a job. At the same time, your own business provides you with much more freedom, opportunities and possibilities. That is why we hope that these few pieces of advice will serve as a brief and a simple tool, intended to warn you and to help you.

1. The impact of global economic crisis on the operations of Montenegrin economy

The negative impact made by global financial and economic crisis onto the Montenegrin economy at the end of previous year was continued in this year as well, and it is reflected in the slowing down the overall economic activities in the real sector, in solvency downfall of enterprises and banks, a high level of mutual liabilities and claims, limited credit support to the business, decreasing recovery of debts and settlement of their own obligations, hampered marketing of finished products etc.²

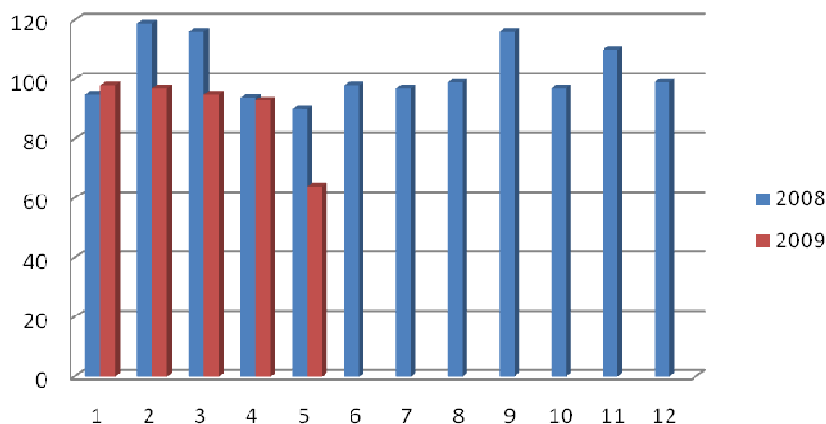
The decrease of production has been recorded in the manufacturing industry, forestry, building industry, and reduced volume of services in transport and tourism. However, the overall economic developments in Montenegro will depend in the following period on the development of global events and measures undertaken with a purpose of giving a support to the entrepreneurship, new investments and development plans as well as projects in specific sectors (Budgetary Low of Montenegro 2009).

Industrial production of Montenegro, in the period January-May 2009, compared to the same period last year, is 16.5% lower. In May of this year, compared to the same month of the previous year, the production was 25.3% lower, compared to April it was 15.7% lower, while compared to the monthly average from the previous year it was 35.9% lower.

In the sector of energy production, which participates with 23.3% in total industrial production, recorded a growth of 41.9%. The other sectors, during the observed period, record a decrease of production, namely in the mining and quarrying sector for 42.4% and in processing industry for 34.7%. Only six areas of industrial production, with their share of 18.8% in the total industrial production, recorded a growth and in the specific sub-areas of: coal production for 31.2%, manufacture of food products and beverages for 7.8%, manufacture of leather and leather products for 165.6%, papermaking, publishing and printing 10.1%, then production of chemical products and fibers for 6.4% and manufacture of machinery and equipment for 5.8%.

² www.pkcg.org

Figure 1. Industrial production indexes



Source: MONSTAT

Primary agricultural production in Montenegro records a growth during recent years which is, above all, a result of a overall support to the development of private sector through placement of financial resources allocated by Agrobudget and realization of the international projects in this branch.

The intense agrarian reforms were continued during 2009. In the implementation phase are: Strategy for food production and development of rural areas, National Program for food production and rural development, as well as Strategy for fishing industry. The Agrobudget was adopted for 2009 amounting €19,75 million, and it is 34,0% higher compared to 2008. The basic support is realized through dairy sector, a direct support to cattle breeding and crop farming, as well as through support measures aimed at infrastructure, investment projects, services in agriculture. There have been launched the activities with the European Commission on elaboration of Program for rural development and the negotiations were completed with the World bank related to the MIDAS project (project for institutional development and strengthening the agriculture of Montenegro with a total value of € 14 million).

The agriculture of Montenegro together in conjunction with agroindustry has a share of about 15% in the national GDP, and in the employment that share is about 20%. Agroindustry has a share of 9.3% in the structure of industrial production of Montenegro, of which the production of food and beverages has 9,1%, while manufacture of tobacco products has 0,2%. In the first five months of this year, the manufacture of food products was 7.8% higher, and the manufacture of tobacco products recorded a 10.8% growth. The main problems for the manufacturers in agroindustry are: the lack of financial means for intensifying the production and

export, high insolvency and lack of possibilities of outstanding debts recovery, then the spending limits and the problem which is becoming more and more distinctive and it concerns the placement of products especially in surrounding countries, a modest marketing approach of manufacturers at the international market, design, packing, inexistence of an appropriate trade mark in export, the large number of small exporters, incompetitiveness of products, and due to numerous business barriers the placement of these products was hampered at the markets of signatory countries CEFTA 2006.

Production of *forest* assortments from state forests of Montenegro for the period January-May of this year records a downfall of 18% compared to the same period in previous year. Total available mass of timber cutting in 2009 is planned for just over 420 thousand m³, and during the five-months period a total of 45.932 m³ of timber mass were cut. Wood processing and wood products for the same period was lower by 49%. There is an apparent drop in demand for these products in the market, both in export and domestic market, which led to reducing of production, creating stocks of finished products, reducing the employment of work force, deterioration of the solvency, hampered debts recovery and settlement of due obligations, etc. Reducing the workload of the construction industry, particularly in the housing, has got a negative impact on the timber industry through a decrease in demand for sawn timber, doors and windows, furniture production and other products of wood.

Value of *construction work* in the first quarter of 2009 amounted to 38.64 million EUR, which is 18.6% lower compared to the same quarter of the previous year, while the physical volume of measured effective hours of work is lower for 17.14%. The value of new contracts on dwelling buildings is lower for 52.1%, and on other buildings for 58.3%.

Almost all forms of *traffic* in the first five months of this year saw a drop of services in relation to the comparative period last year. The increase in this period was recorded only by road transport, where the number of passengers increased 16.3%, and the number of tone kilometers in freight traffic increased 5.3%, as well as mobile telephony services which recorded a 14.5% growth.

Number of passengers in railway transport is 22.9% lower, and the passenger kilometers for 15.4%. Rail transport of goods recorded a decrease of 53.1% and the passed tone kilometers of 49.7%.

Although a number of road traffic passengers increased, total number of passenger kilometers recorded a decrease of 13.2%, which implies that those were short trips. When it comes to the road freight transport, where an increase in the number of tone kilometers was recorded, the amount of freight is less than for 12.4%.

The volume of services in maritime transport is also decreasing, so the transport of goods in tones is 10.1% lower, and the number of tone miles is 27.5% lower, while the harbor traffic is 22.4% lower.

Passenger traffic by air transport was 21.9% lower in first five months, while the amount of transported goods in tones is 54.6% lower.

According to the preliminary Montstat data, turnover in *retail trade* in market rates was in first four months of this year 0.6% lower compared to the same period of previous year, and in April this year it was 3.55% lower compared to the April last year.

Activities in the field of trade are aimed at creating conditions for the development of competition in the market, improvement of the quality of offered goods, diminishing the business barriers, improvement and modernizing the trade sector as a basis for improvement of conditions for the inflow of foreign capital, further suppression of the gray economy, improvement in the area of protection of consumers' rights, improvement of the intellectual property rights, improvement of the quality infrastructure as well as completing the initiated transformation processes of commercial companies.

Tourism is a strategic branch which had a most dynamic development during recent years. There is no doubt that this branch was the first to found itself under the attack of economic crisis, because since the end of last year its impact has reflected on the overall results of operations.

For the five months of 2009, the realized outputs of the tourist trade demonstrate a decrease of the total turnover in tourism, that is: decrease in number of tourists for 8.97%, and total number of overnight stays for 13.8%. It is quite clear that normalization of tourist flows and traffic growth could be expected only when the stabilization of global economic processes is felt. Thence it is necessary, on all levels, to seek the solutions at least to improve the current situation. These solutions include both the Government's measures, and the measures of local governments and their public enterprises significant for establishing a quality touristic offer, hoteliers and all service providers. The success of the tourist season this year will, above all, depend on the extent of adjustment of all tourist trade subjects to the new situation both in foreign and in domestic market and attracting as many tourists to Montenegro.

The total *visible trade with foreign countries* in five months of 2009, was 722.04 million EUR, which is 37.8% lower compared to the same period of last year, and it is an indicator of the strong impact that the global economic and financial crisis have in this area. Total import amounted 621.10 million EUR, and it is 36.8% lower, while the total export was only 100.94 million EUR and it is 43.3% lower than the comparative period. Deficit in trade with foreign countries was realized in amount of 520.15 million EUR, which was, due to the significant decrease of value of imported goods 35.42% lower compared to the deficit realized during the same period of last year. Coverage of imports by exports was 16.25%.

Complementary economies, vicinity of markets and approximately same level of competitiveness represent a solid basis for improvement of mutual cooperation with neighboring countries and the region. Due to the impact of crisis on the

economic operations, the volume of this exchange was also reduced, because, compared to the same period of the previous year, the export was lower in all CEFTA signatory countries except in Former Yugoslav Republic of Macedonia, while the import was higher only from Albania. Total turnover with CEFTA countries in five months amounts 367.65 million EUR, of which the export is 39.65 million EUR and the import is 328.3 million EUR. The nontariff barriers contributed to this which were recorded since the Agreement entered into force, and among these barriers the most important ones were double certification of products, then sampling of each individual delivery and each packing, which makes the export more expensive and often puts into question the realization of signed contracts.

In the EU market, the Montenegrin economy places 52.22% of the total exported goods. The import from EU countries represents 31.57% of total Montenegrin import.

Inflation rate, measured by the growth of consumer prices, in May 2009 compared to December 2008 was 1.6%, while in comparison to the same month of the previous year there has been a growth of 4.8%. Consumer prices in May, compared to April were 0.1% higher. Growth rate of consumer prices during the period January-May 2009, compared to the same period of the previous year, was 5.2%.

Observed by groups of products and services according to the purpose of consumption, in May the highest growth was in the prices of culture and recreation area for 0.6%, also the communication area for 0.6%, then food and soft drinks for 0.2% and spirits and tobacco products for 0.1%.

The trend of increase in the number of *employees* continues. By the end of May 2009, the number of 174.218 employees was recorded, which is 5.4% higher than the previous year's situation. In the files of the Employment Bureau there were 27.785 unemployed persons, which is 6,8% less than in the same period of the last year. The unemployment rate was 10.8%.

Average *earnings* in Montenegro in May 2009 were 651 EUR, while the average earnings without taxes and contributions were 468 EUR. Considering the fact that the consumer prices in May this year compared to April was 0.1% higher, result is the 0.5% growth of real earnings in Montenegro in May, compared to April this year. An average earning without taxes and contributions in May, according to sectors of industry, was from 156 EUR in the fishing industry to 930 EUR in the sector of financial brokerage.

Global economic crisis led to reducing of all power units in the banking sector. Total *bank* assets amounted at the end of April 3.142,2 million EUR, and it was 5.1% lower than it was at the end of 2008, while at the annual level it was 2.9% lower.

Total deposits amounted 1.722,8 million EUR at the end of April, and they were 21.7% lower than in the April of previous year, and they were 13.4% lower compared to December 2008. The surveys conducted by the Central Bank, show that

the main problem is not withdrawal of deposits due to some psychological reasons, but the problems concerning repayment of credits, that is the usage of deposits for settlement of credit obligations towards the banks, which means that the money has not left the banks, but was used for the repayment of the obligations to those banks. In total deposits, the deposits of natural persons still have a dominant share and at the end of April they were amounting 762.4 million EUR or 44.3%, then the deposits of non-financial institutions 32.3%, etc.

The value of credits was 2.664.8 million EUR at the end of April 2009, which, compared to the end of 2008, represents a decrease of 4,7%, while the credits at the annual level had a 3% growth. Ratio credits/deposits has become worse and it amounted 1,55 (in March this year it amounted 1,52, in December 2008 - 1,41, and a year before it was 1,18). In the structure of approved credits, 95,5% are the credits approved to the economy and population.

In April, the active weighted average nominal interest rate (APPNS) was amounting 8,67% and compared to March it records a downfall of 0.09 percentage points, while the weighted average effective interest rate of active (APPEs) was amounting 9,36% and it records a slight growth compared to the previous month.

In the second quarter of this year there have been certain positive developments compared to the situation of March 31 of the same year. State of the monetary market is gradually improving, negative trends are slowing down and it is expected that this state will continue in the future. The primary expectation for the forthcoming period is the growth of deposits, due to sale of the part of the Electric Enterprise, then the recapitalization of banks and credit lines from abroad (KFW, FEP, FES, EIB and others).

- The Council of the Central Bank of Montenegro has adopted a Decision on the use of obligatory reserves with the Central bank for the period longer than one day, with a purpose of mitigating the negative effects of the global financial crisis and protection of banking sector in Montenegro (CG Ekonomist).

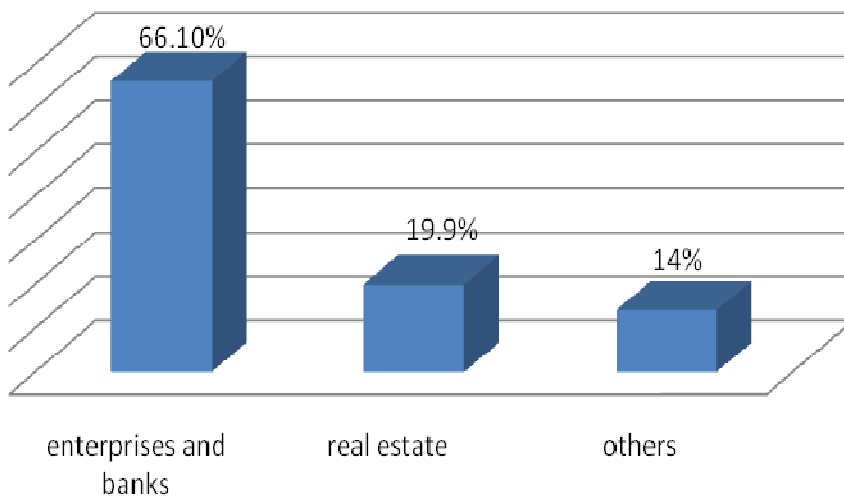
- There has been introduced a uniform rate for obligatory reserves which is 11% on all deposits, with no exemptions. Effect of this measure is a reduction of obligatory reserves for 32 million, as well as 32 million in treasury bills, which have been introduced as a novelty within the Decision, and it relaxed the banking sector for over 60 million EUR.

- The Central Bank of Montenegro will maintain its intense control over establishing a governance of the credit risks and solvency risks, especially regarding the system banks.

Last year there was achieved a record amount of *net foreign direct investments*, and they were 567,6 million EUR. Despite of the global financial crisis, net inflow of foreign direct investment recorded a slight growth in the first five months of 2009, compared to the same period of the previous year. According to the preliminary data in the possession of the Central Bank of Montenegro, net inflow of

foreign direct investments (inflow minus outflow) in the period January-May 2009 amounted 269 million EUR, which is 5% higher than in the same period of the previous year. The increase of net inflow was realized mostly due to the sale of shares of four joint investment funds in the Electric Enterprise of Montenegro to the Italian company A2A for about 122,7 million EUR. Sale of shares to the Italian company is a confirmation that, when it comes to good companies and projects, despite of crisis, it is not difficult to find investors and it is a good signal for the participation of foreign investors in the recapitalization process of the electro energetic company.³

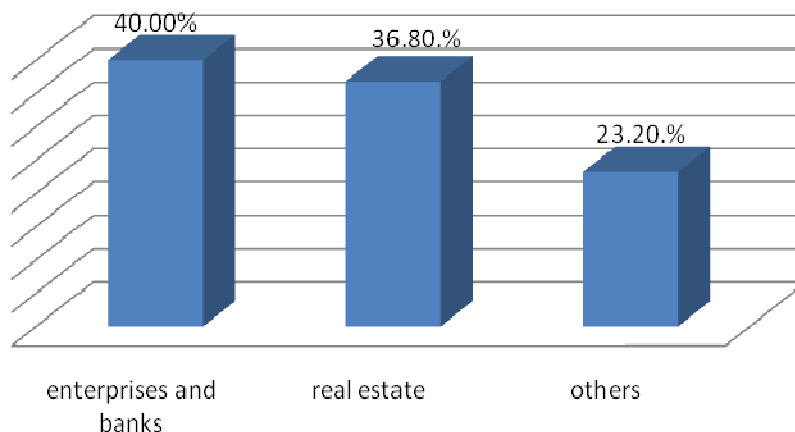
Figure 2. Structure of inflow of Foreign Direct Investments I-V 2009



Source: MONSTAT

³ www.worldbank.org/montenegro

Figure 3. Structure of inflow of Foreign Direct Investments I-V 2008



Source: MONSTAT

Total inflow of foreign direct investments in Montenegro, in the period January-May 2009, amounted 308 million EUR. In the structure of this inflow 265,4 million EUR related to the influx based on investment in the form of equity capital, while the sum of 42,7 million EUR was realized in the form of intercompany debt. Regarding the structure of investment in the form of equity capital, more than 66% was related to investments into the local banks and companies (204 million EUR), which is 31,3% higher compared to the same period of the previous year. The inflow achieved by selling of the real estate has significantly fallen down – 56,8%. The investments into real estate during the observed period amounted 61,2 million EUR.

Total outflow based on the Foreign Direct Investments amounted 39 million EUR, which is 71,7% lower than in the same period of 2008.

The level of Foreign Direct Investments should be significantly increased until the end of current year, provided that the projects of capital infrastructure building and recapitalization of banks are realized.

National debt of Montenegro on March 31, 2009 was 1.016,2 million EUR or 28,7% of the estimated GDP for 2009 (3.538,0 million EUR), of which the internal debt is 465,8 million EUR or 13,2% GDP, while the external debt is 550,4 million EUR or 15,6% GDP. (Economic policy for 2009 projected the participation of external debt of 19,1%) (Monstat, CGCG, Ministry of finance 2009).

In the first quarter of the year there has been a drop of *budgetary revenues* compared to the plan for 13,8%, and compared to the same period of the previous year for 14,8%. The greatest drop of budgetary revenues was recorded in the VAT revenues on import and customs – between 30 and 40%, due to reduced volume of import of goods as a direct consequence of diminished economic activities which

was caused by the economic crisis impact. In contrast to it, VAT revenues realized through the internal transactions still show a growth tendency. After three years of positive balance, in the first quarter of this year, there has been a deficit in the budget of about 8 million EUR.

It has been assessed that *the Gross Domestic Product* in the first quarter of this year was achieved really at the level of the first quarter of the previous year (Directorate for Development of Small and Medium Sized Enterprise of Montenegro 2007).

Table 1. Major indicators of Montenegro, 2009

CONTENTS	Estimation for 2009	Realization Months I-V 2009
GDP in current prices, millions of €	3.715,0	-
Increase of real GDP, %	5,0	-
Inflation rate, %	4,5	1,6
Employment growth %	2,1	5,4
Unemployment rate, %	10,3	10,45
Goods and services exchange deficit, millions of €	1.151,6	520,15
Share of deficit in the GDP %	31,0	-
External debt, millions of €	710,0	550,4
External debt, in GDP %	19,1	15,6
Net Foreign Direct Investments, millions of €	460,0	269,0
Net Foreign Direct Investments, % in GDP	12,4	-

Source: MONSTAT

2. Government's measures

The set of measures for relieving the consequences of economic crisis was adopted by the Government's Budget for 2009. Since the beginning of the year, the following fiscal policy instruments have been applied:

Reduction of the current, unproductive expenditure through:

- reduction of current outgoings, that is, lower participation of public spending in GDP,
- freezing of 10% of expenditures for materials and services in the first half of this year.

The adopted saving plan envisages realization of savings in amount of 66.8 million EUR or 14,1% of total annual budget.

Support to economy and population:

- Diminishing the income tax rate of the citizens from 15.0% to 12%,
- Diminishing the health insurance contributions rate from 12% to 10.5%,
- Diminishing tax rate for retirement insurance from 21% to 20.5%,
- the obligation to pay contributions for compulsory social insurance for incomes based on severance compensations was abolished,
- motorway fees were abolished,
- the fees for usage of construction sites were abolished,
- the price of electric energy was reduced for small and medium enterprises by 10%, and subsidies for the most jeopardized categories of population were introduced,
- premature repayment of internal debt based on the restitution and repayment of old foreign currency savings,
- broadcasting taxes were abolished,
- The conditions for ensuring the long-term credit lines were created, with an aim to support small and medium enterprises,
- Strengthening investment in infrastructure by increasing expenditures in capital budget.

Besides fiscal policy measures, socio-economic support measures are being realized through project "A job for you", having a value of 18.5 million EUR for 2009.

A support measure aimed at ensuring additional solvency of small and medium businesses as well as stimulation of employment is realized through borrowing from abroad and providing credits for small and medium enterprises (ŠTIBLER 2009):

- Representatives of Government and European Investment Bank (EIB) signed on 3 July a Contract of guarantee of 91 million EUR for Montenegrin business banks intended for financing projects of small and medium enterprises. The largest sum of money will be lent to the Montenegrin Commercial Bank – 33 million EUR and to NLB Montenegrobank – 20 million EUR. Atlasmont Bank will receive nine million EUR, Podgorička Bank will receive seven million, Opportunity Bank

six, Hypo Alpe Adria Bank five, Hipotekarna Bank four million EUR, Commercial Bank three million and First Financial Bank will receive two million EUR. Grace period is four years with time of payment 12 years. For infrastructure projects grace period is five years with time of payment 15 years. EIB reserved the right not to approve the individual credit if it assesses that the interest rate or the time of payment are out of proportion compared to interest rate and time of payment under which the bank obtained that credit.

- However, EIB is already present by crediting the Montenegrin Railway Enterprise, projects concerning waste water disposal, as well as possible investments into regional landfills.

- The issuing of Government guarantees worth 167,5 million EUR was envisaged with an aim to support large systems for sustaining the economy, such as: Željezara (Steel Processing Plant) Nikšić (25 million EUR), Aluminum Plant Podgorica (135 million EUR), and the rest goes to Montenegroairlines and Pobjeda;

- The Erste Bank provided 35 million EUR for support to the budget;

- There was also envisaged the issuing of guarantees for credits by the European Bank for Reconstruction and Development (EBRD) for the project Construction of regional water supply on the Montenegrin coast, with the amount of three million EUR and the European Investment bank (EIB) for railway project – phase II, amounting seven million EUR;

The guarantees will be issued also to the German Bank for Reconstruction and Development (KfW) for the projects Thermal Power Station Pljevlja I and Substation Ribarevina, amounting 15 million EUR, then, this bank will also obtain the guarantees for the project Hydroelectric Power Station Piva, amounting 9,5 million EUR.

- The state will issue the guarantees to KfW bank also for the support to the banking system in total value of 50 million EUR, and the beneficiaries are Montenegrin business banks, then to the Abu Dhabi Fund for development for the project Regional water supply worth 15 million EUR and to NLB Montenegrobank for five million EUR with the Bauxite Mines as a beneficiary.

- In the course of this year, the Government signed a Contract on guarantee with EBRD for the third portion of credit for the project Urgent rehabilitation of railway infrastructure, which is four million EUR worth.

- The Government, up to the present, was issuing the guarantees for the projects which were aimed at the improvement of infrastructure and which represent a basis for a sustainable economic development.⁴

⁴ www.pkcg.org

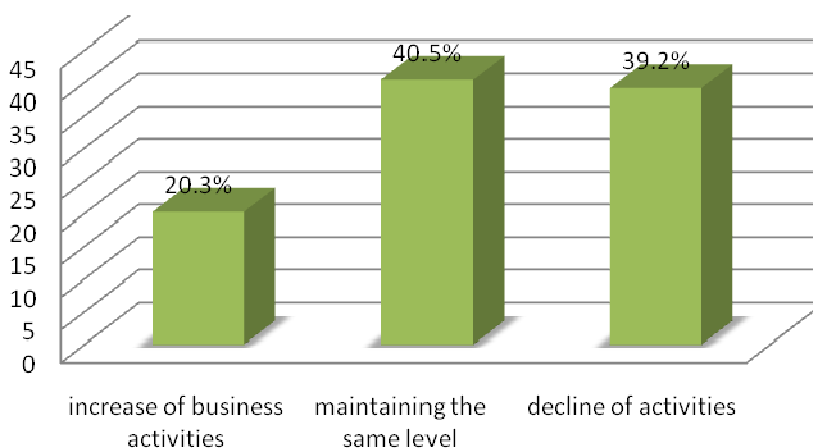
3. Overview of situation based on conducted surveys (Vukčević 2009)

Chamber of Economy of Montenegro continuously monitors operations of companies through its association committees, then by visiting the companies and in direct contacts with economic operators and by the already prepared questionnaires.

The survey conducted by the Chamber and direct contact with economic operators, included over 320 economic enterprises from all economic activities. Based on immediate discussions on problems and limitations encountered in the course of business operations and based on the presented answers to the questionnaire, some main limitations to the economic operations were reported along with the recognition of business expectations for the current year.

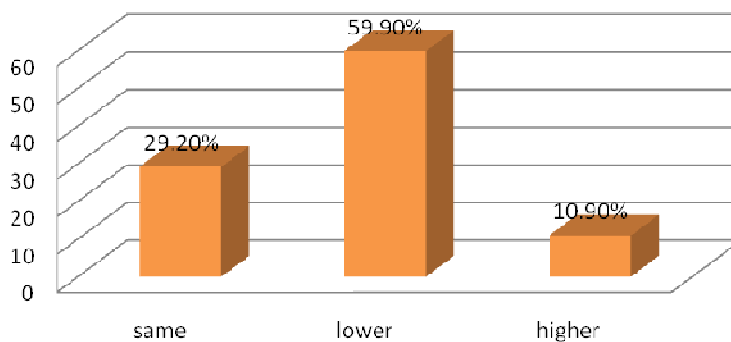
1. By processing the data obtained from the questionnaires, it can be concluded that the business expectations of the interviewed economic operators are still encouraging until the end of the year, since almost half of the interviewees (40.5%) expect keeping their business activities at the previous year's level. About 20.3% of the interviewees expect the business activities to grow, and 39,2% already face a downfall of the production volume and expect that trend to continue until the end of the year.

Figure 4. Business expectations by the end of 2009



Source: MONSTAT

Figure 5. Volume of production/turnover in the first quarter of the year compared to the same period of the previous year



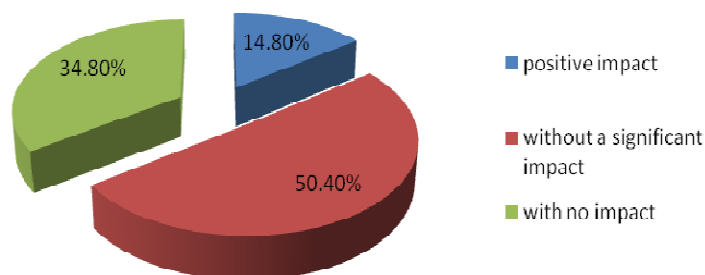
Source: MONSTAT

Reduction of turnover volume in the first quarter of this year compared to the same period of the previous year was recorded by more than half (59.9%) of the interviewed, the same volume has 29.2%, and higher volume was recorded by only 10.9% of the economic operators.

Out of the enterprises with declining volume of production (turnover), the most of them, about 48.9%, have the turnover reduced from 1-30%. In the zone 31-60%, reduced turnover is recorded by 31.8% of the interviewed, while only 6.8% have a turnover reduced by over 60%. Amongst the enterprises which have an increased volume of turnover, the majority of the interviewed (87.5%) has got an increase up to 30%, while 12.5% of them have got higher turnover from 30-60%, but no enterprise succeeded to increase their turnover over 61%.

2. Over half of the interviewed consider that the Government's measures, aimed at suppression of the negative effects caused by the crisis, did not have some significant impact to their business operations, 34.8% consider that they had no impact whatsoever, while only 14.8% of the interviewed consider that the measures taken by the Government had a positive impact on their operations.

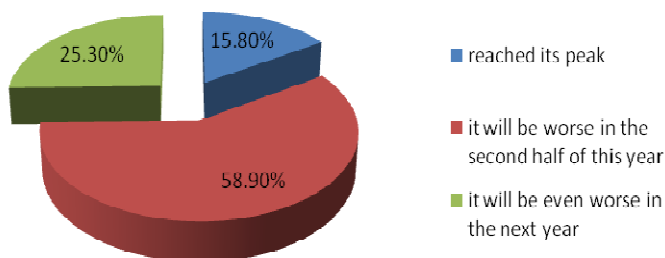
Figure 6. Assessment of the impact made by the Government's measures to the operations of economic enterprises



Source: MONSTAT

- When it comes to the assessment of the intensity degree of the crisis which overtook the Montenegrin economy, only 15.8% of the interviewed consider that the crisis reached its peak, while the rest of the interviewed expect more complex conditions for performance of their operations in the forthcoming period, that is, the crisis yet has to reflect onto the Montenegrin economy.

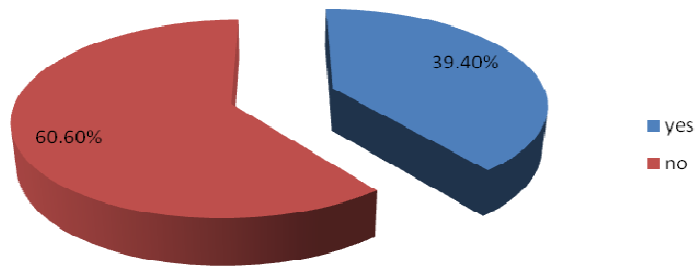
Figure 7. The intensity of crisis



Source: MONSTAT

- The larger number of the interviewed (60.6%) did not ensure, or, better to say, they did not contract their operations until the end of business year, while 39.4% of them already have signed contracts for this year.

Figure 8. Contracted business arrangements for 2009

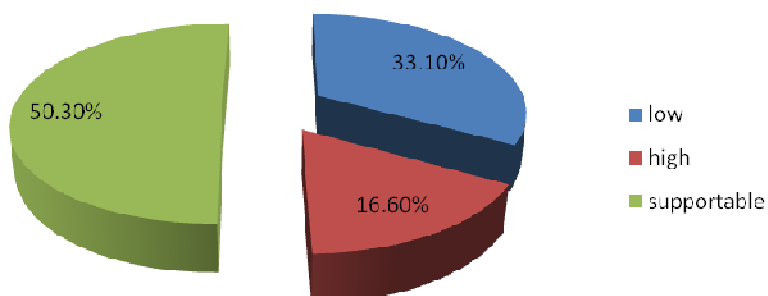


Source: MONSTAT

Compared to the survey from March this year, the situation remains almost unchanged

5. The contracts were denounced due to: hampered placement, inability to pay obligations, hampered collection of debts, insolvency of business partners, high cost of raw materials, falling prices of finished products, reduced spending capacities, due to untimely tender for award of concessions, inability of investors to close the financial construction, lack of financial resources, situation in business banks, impact of the global crisis on the foreign partners, etc.
6. The largest negative impact on business has a difficult collection of debts (21%) and lack of credit resources (19%), then duties (16.5%), costs and hampered placement of products (16%), while the smallest impact have the hampered purchasing conditions (11.5%).
7. Regarding credit debts of economic enterprises, it is, according to their assessment, found supportable by the half of the interviewed, it is low by 33%, while 16.6% is highly credit indebted. There were no significant changes of the situation compared to three previous months (the previous survey).

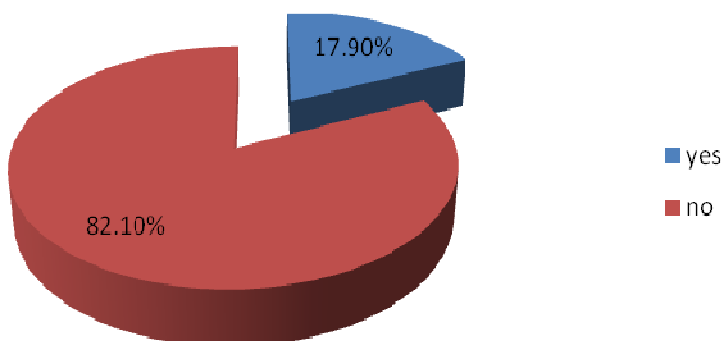
Figure 9. Assessment of credit indebtedness of economic enterprises



Source: MONSTAT

Over 82% of the interviewed did not submit a request for rescheduling of credit.

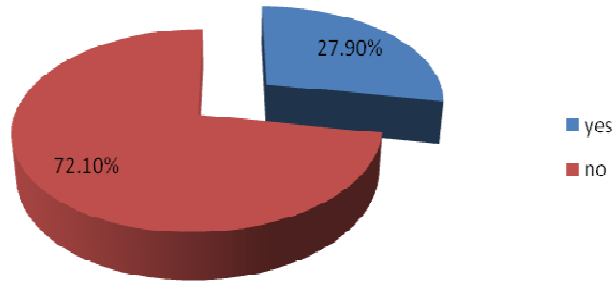
Figure 10. Request for rescheduling of credit



Source: MONSTAT

Most of the total submitted requests for rescheduling of credit (72.1%) were not approved.

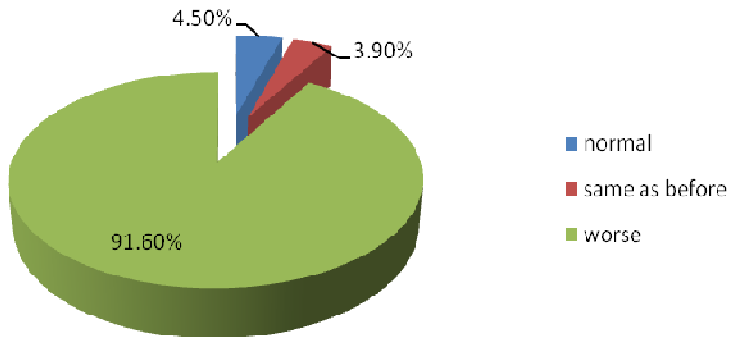
Figure 11. Approved requests for rescheduling of credit



Source: MONSTAT

8. About 91.6% of the interviewed consider that the conditions for obtaining credit during the past period of this year were more adverse, while the rest consider them same as before (3.9%), or normal (4.5%). Compared to the survey from March this year these assessment are even more negative, since at that time 75% of the interviewed considered those conditions more adverse.

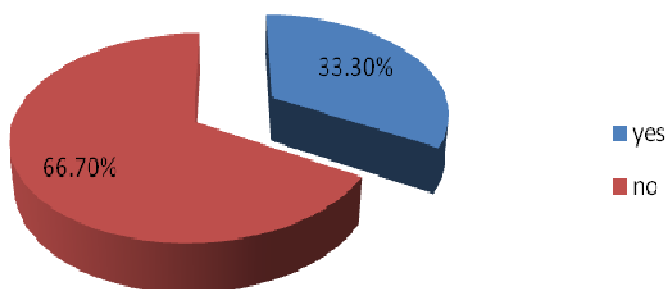
Figure 12. Assessment of the possibilities for obtaining credit in 2009



Source: MONSTAT

About two thirds of the interviewed did not submit their requests for obtaining credit during this year.

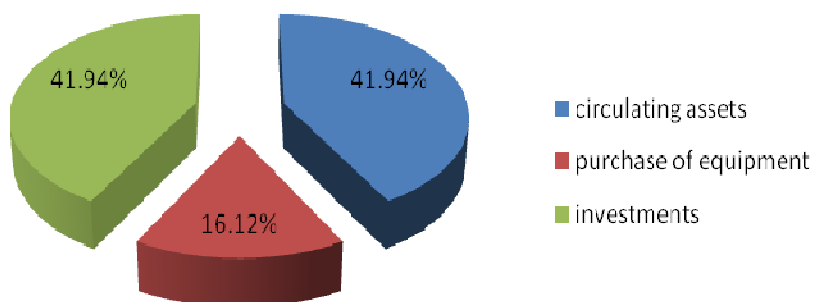
Figure 13. Submitted requests for obtaining credit in 2009



Source: MONSTAT

8.1 Of one third of the interviewed which submitted requests for credit, the largest number sought credit for circulating assets (41.9%) and for investments in fixed assets and expansion of business (41.9%), while only 16.1% for purchase of equipment.

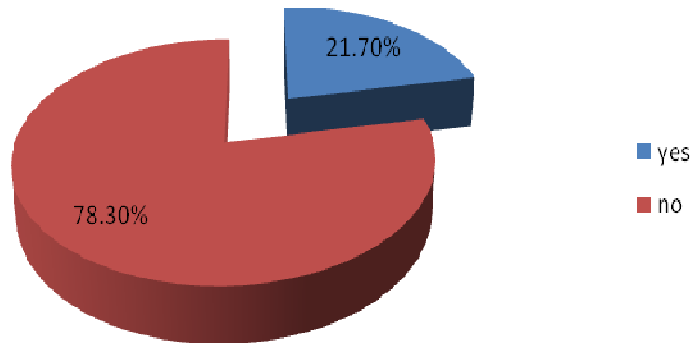
Figure 14. Credit purpose



Source: MONSTAT

8.2 For the most of the interviewed (78.3%), the credits have not yet been approved, but the majority (71.7%) expects their approval.

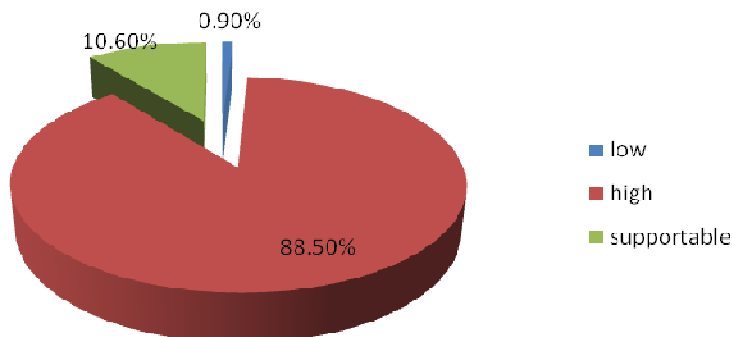
Figure 15. Approved credits



Source: MONSTAT

- 8.3** About 2.3% do not expect that their requested credits would be approved, and as the main reasons they mention: the new situation significantly changes the position of the company and affects its solvency, insufficient and irregular execution of certified realization (building construction), poor financial balance from the previous year, which results in poor solvency of companies (transport) and more strict bank procedures for giving new credits.
- 9.** Interest rates for credits are mostly high in the opinion of 88.5% of the interviewed, while for 10.6% of them they are supportable, and an insignificant number (0.9%) consider them to be low.

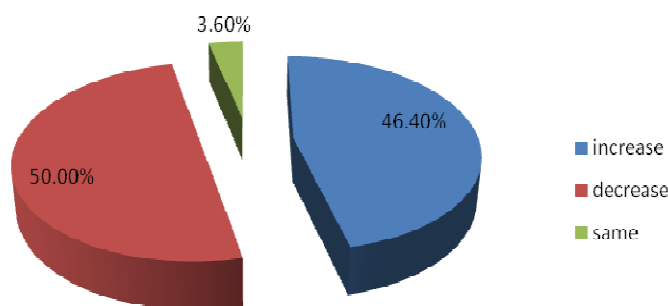
Figure 16. Assessment of interest rates and other banking services in 2009



Source: MONSTAT

- 10.** Regarding the number of employees in the companies and plans until the end of the year, almost half of the interviewed (46.4%) plans to increase the number of employees and mostly within the range 1-30%, while the other half of the interviewed plans to reduce the number of employees within the range 1-30%, so that it is expected that the total number of employees will remain the same.

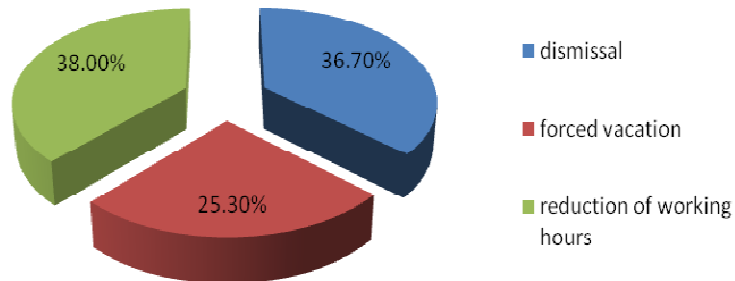
Figure 17. Trends in number of employees until the end of 2009



Source: MONSTAT

- 10.1** The interviewed with redundant workers have dominant attitudes that this issue can be solved by: shortening the working hours (38%), dismissal of employees (36.7%) or forced vacation (25.3%).

Figure 18. Settlement of the redundant employees' problem

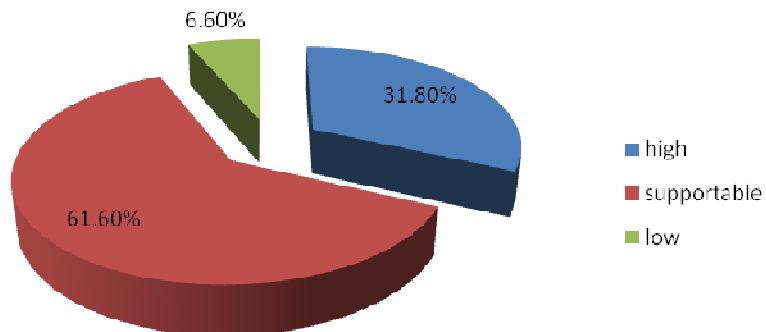


Source: MONSTAT

10.2 The largest number of the interviewed (87.3%) regularly pays their obligations towards the employees, while the others are late for some 2-3 months.

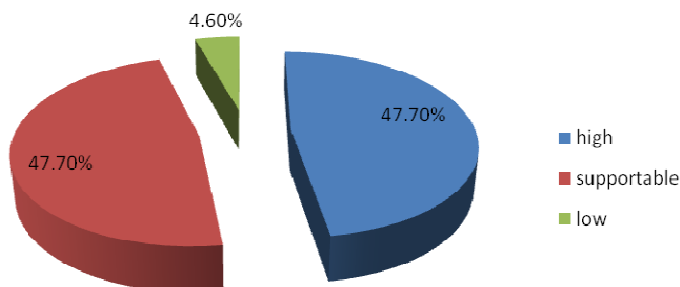
10.3 Regarding the assessment of liabilities and claims by the end of the year, the largest number of employees (61.6%) considers that they have a supportable level of obligations, while the obligations are high for 31.8% of the interviewed.

Figure 19. Assessment of the level of obligations by the end of 2009



Source: MONSTAT

Figure 20. Assessment of the level of claims by the end of 2009

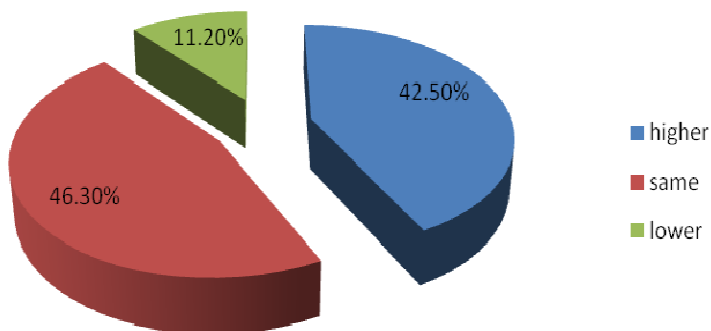


Source: MONSTAT

The claims, however, are equally high and supportable in the opinion of 47.7% of the interviewed, and a very small number of about 4.6% has a low level of obligations and claims.

11.1 Level of obligations compared to the same period of the previous year remained the same at 46.3% of the interviewed, while 42.5% have greater obligations, mostly within the range of 1-30%.

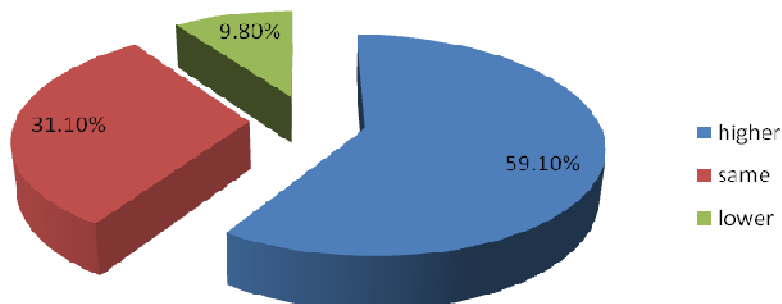
Figure 21. Level of obligations in the 1st quarter 2009/1st quarter 2008



Source: MONSTAT

The claims were higher for 59.1% of the interviewed and mostly within the range 1-30%, while 31.1% have the same level of claims as they had at the end of the first quarter of the previous year, and only 9.8% have a lower level of claims.

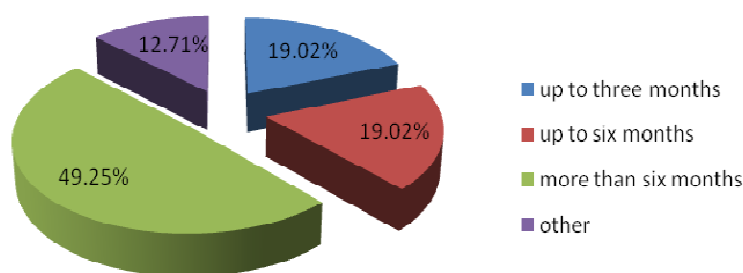
Figure 22. Level of claims for the period 2009/2008



Source: MONSTAT

- 11.2** Obligations/claims ratio is equal for 25.8% of the interviewed, while 32.5% have claims double compared to obligations, and the rest of the interviewed have got claims which are three, four or five times higher than the obligations, while in ten cases there are obligations double compared to claims.
- 12.** About 66% of the interviewed launched a lawsuit for payment of claims, and the court proceedings generally last for more than six months (49.2%), while considerably lower number of the interviewed had court proceedings with duration of up to three (19%) or up to six months (19%).

Figure 23. Duration of the court proceedings



Source: MONSTAT

- 13.** Other adverse effects expected by the interviewed until the end of the year are: difficult collection of claims from the commercial sector; increase in the number of blocked accounts; increase in the number of dismissed workers and reduction of salaries; poor tourist season; lack of subsidies for agriculture and difficult repurchase of agricultural products as well as their placement due to uncertain debt collection; lack of working capital to pay associates; delays in granting concessions, which prevents the contracting business; weak occupation of the capacities and labor due to reduction of ordering and a lack of raw materials; decline in prices of finished products (timber); decline of investment activities in Montenegro and in the region which have negative effects on the placement of domestic equipment; general insolvency; inability to pay off credits; reduced financial power of the population; increase of interest rates by the business banks; reduced turnover in all forms of transport as well as the reduction of profit; unfair competition and insufficient ability to work in appropriate industries.
- 14.** Government measures which, in the opinion of economic operators, facilitated the operations in the first quarter of this year are:
- postponing obligations for taxes and contributions for salaries,
 - postponed payment of VAT on import, although that Government measure is hardly applicable in practice, since it requires special guarantees from banks,
 - reducing obligatory reserves by the Central Bank of Montenegro,

- Subsidies to the prices of energy, and reduction of price of petroleum products,
 - Faster issuing of building permits,
 - Grant Schemes of the Directorate for development of small and medium enterprises,
 - obtaining guarantees from international financial institutions for credits for SMEs by force of the Government,
 - Abolition of fees for city construction land,
 - Abolition of weight tax charged by custom duty.
- 15.** Measures of local administrative bodies which, in the opinion of business operators, facilitated their operations in the first quarter of 2009:
- Reduction of utility fees,
 - Abolition of fees for city construction land.
- 16.** Measures taken by economic entities with a purpose of rationalizing their operations:
- Savings in the primary and auxiliary materials, reducing waste products,
 - Rational management of stocks,
 - Reduction of operational costs on each level,
 - Increase of productiveness,
 - Introduction of new services,
 - More intensive contacts with the producers aimed at launching some joint activities for sales improvement, promotional prices, longer repayment period,
 - Maintaining the same level or reduction of prices of the finished products or services,

- Increase of activities in the area of marketing,
- Reduction of working hours,
- Reduction of the number of employees and suspension of recruiting new employees,
- Maximum involvement of the managements in putting into function all business capacities, on obtaining deals which are at the level of simple reproduction,
- Reduction of earnings,
- Continued investment in projects that have already started or are in their final stages,
- Careful selection when entering into new projects,
- Maintaining construction operations as well as the quality of performed works,
- Selling products on deferred payment only to verified buyers,
- Attempt of placement of the products on foreign market,
- Extension of transactions volume which does not require large investments,
- Savings at the depreciation at the cost of fixed assets,
- Strict control of debts collection,
- Selection of buyers and ensuring of claims,
- Adoption of standards.

3. Conclusions and suggestions

Based on the indicators of the general state of the economy in the first five months of this year (Montstat and the Central Bank of Montenegro) and on the basis of the survey continuously conducted by the Chamber of Commerce, direct contacts and

conclusions by associations committees, decline in economic activity since the beginning of the year is evident. The similar situation is expected by the end of the year, so it is necessary to reexamine the projected macroeconomic indicators and to readjust them to economic reality. Measures adopted at the end of last year and at the beginning of this year, according to assessment of the majority of economic operators (over 85%) were without any significant impact, or they had no positive impact to operations of those entities. Therefore, they need to be improved and adjusted to the new economic reality, because negative consequences of the financial crisis become more and more evident. Insolvency of economic operators is increasing, and it is demonstrated by the results of the survey conducted during the second quarter, compared to the results of the first quarter survey. More and more companies have high outstanding liabilities (about 32%), and that fact is confirmed by data provided by the Central Bank of Montenegro regarding blocking of the accounts and increased level of due outstanding liabilities.

Credit support

- Government's assistance programs for sound companies should be directed towards ensuring necessary bank guarantees for obtaining new credits, regression of interest rates and rescheduling of credits.

- Increasing the amount of funds for subsidies within the budget's capacities, and these subsidies are intended for interest rates of the credits for sustaining the solvency and financing of circulating assets, as well as for the import of raw materials and semi manufactures which do not have a substitute in domestic production, for the two following years. Extension of time limit for approval of these credits is necessary considering that the operating conditions have got worse, as well as that short term credits are not sufficient for financing of permanent circulating assets.

- With a purpose of generating domestic demand, there should be introduced credits with subsidied interest rate for consumer credits which are intended for purchasing certain permanent consumption goods.

- Continue to support the SMEs through Directorate for Development of SMEs and the Development Fund, which base their production programs and business plans on the final production, manufacturing and placement of higher-value products, increase of the production volume and the quality of export goods.

- To establish a Bank for Development which would, by achieving profits from selling the state property and the funds borrowed from the international capital market with the state guarantees and Budget resources, finance the strategic development projects as well as the projects regarding sectors and companies which would in short term ensure some positive economic effects. The advantage is to be given to the programs which ensure savings in energy and raw materials, automation of processes, introduction of standards, quality control, extension of the market

(export), strengthening of domestic manufacturers which will result in increase of the level of their competitiveness.

Improvement of the financial discipline

- Tightening of measures in payment operations in the part concerning respecting the payment deadlines and providing instruments for payment guarantees (checks, bills of exchange, bank guarantees). The introduction of new methods or financial instruments (order of acceptance) should be encouraged, or, for example, extrajudicial collection, through specialized agencies, factoring and forfeiting.

- Due to big problems encountered by Montenegrin economy, for the duration of the crisis, as a short-term measure there should be introduced a multilateral compensation with the public sector, and by that reduce the volume of internal debts.

- It is necessary to introduce an obligation for users of budgetary funds to regularly pay their dues to the economy, for conducted works and services from the contracts awarded through public procurement procedures, in accordance with the allocated funds and contracted dynamics of payment for no longer than 60 days.

- Impose an obligation to the Commercial Court to, when registering the company, it must make prior examination of data with the Tax Administration and the Central Bank of Montenegro regarding the existence of eventual due liabilities of the future owners of economic entities. That would prevent abuses, that is the extinction of existing economic entities and registration of new ones by the same persons and that would prevent avoiding of payment of due liabilities.

- In purpose of strengthening the financial discipline, the efficacy of judicial system has to be improved in terms of court deadlines for recovery of claims. In the court proceedings for recovery of claims, due to elimination of delays of process to the detriment of creditors, the obligation of payment based on the court decision should be introduced, after which it would be possible to start the complaint mechanisms. It would be necessary to increase the level of default interests so that the debts could not be paid, and by that reduce the duration of the court proceedings.

- It should be continued with a consistent carrying out of the measures aimed at the suppression of gray economy and in the fields of transport and production. Synchronized and efficient measures, increased technical and staff capacities with a coordinated activities of customs, inspection and other institutions should be fully engaged in the control and prevention of illegal import, elimination of illegal forms of business operations and prevention of unfair competition on the market.

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