STATE OF MONTENEGRO

represented by the Government of Montenegro,

acting by and through its Ministry of Finance and Social Welfare

EUR 750,000,000 2.875 per cent. Notes due 2027

Issue Price: 99.532 per cent.

The issue price of the EUR 750,000,000 2.875 per cent. Notes due 2027 (the "**Notes**") issued by the State of Montenegro, represented by the Government of Montenegro, acting by and through its Ministry of Finance and Social Welfare (the "**Ministry of Finance")** (the "**Issuer**" or "**Montenegro**") is 99.532 per cent. of their principal amount (the "**Issue Price**"). The Notes will be redeemed at their principal amount on 16 December 2027. The Notes are not redeemable prior to maturity.

Interest on the Notes is payable annually in arrear on 16 December of each year, commencing on 16 December 2021, up to (and including) 16 December 2027.

All payments in respect of the Notes will be made by or on behalf of the Issuer without withholding or deduction for or on account of taxes imposed or levied by or within Montenegro or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. As at the date of this Prospectus, withholding tax of 9 per cent. is applicable under Montenegrin law to payments of interest in respect of the Notes, except where any applicable double taxation treaty stipulates otherwise. If payments in respect of the Notes are subject to withholding or deduction for any such tax, pursuant to Condition 10 (*Taxation*) of the Terms and Conditions of the Notes, the Issuer has agreed to pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, subject only to the exceptions set out in that Condition. See "*Terms and Conditions of the Notes—Condition 10 (Taxation)*" and "*Taxation*".

This prospectus (the "**Prospectus**") has been approved by the Financial Conduct Authority (the "**FCA**"), in its capacity as United Kingdom competent authority under Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation and such approval should not be considered as an endorsement of (a) the Issuer or (b) the quality of any Notes that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in any such Notes. Application has been made to the FCA under Part VI of the Financial Services and Markets Act 2000 (as amended, the "**FSMA**") for the Notes to be admitted to the official list of the FCA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's regulated market (the "**Market**"). References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2014/65/EU on markets in financial instruments (as amended, "**MiFID II**").

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or with any securities regulatory authority of any State or other jurisdiction of the United States and may not be offered, sold or delivered within the United States, its territories and possessions, any State of the United States or the District of Columbia (collectively, the "**United States**") except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in accordance with any applicable State securities laws. Accordingly, the Notes are being offered, sold or delivered: (a) in the United States only to qualified institutional buyers ("**QIBs**") (as defined in Rule 144A ("**Rule 144A**") under the Securities Act) in reliance on, and in compliance with, Rule 144A (such Notes so offered and sold, the "**Rule 144A Notes**"); and (b) outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**" and, such Notes so offered and sold, the "**Regulation S Notes**").

Prospective purchasers that are QIBs are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Transfers of Notes are subject to the restrictions described under "*Summary of Provisions Relating to the Notes in Global Form and Transfer Restrictions*".

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH ANY APPLICABLE STATE SECURITIES LAWS.

The Notes have not been recommended by or approved by the US Securities and Exchange Commission or any other federal or state securities commission or regulatory authority of the United States, nor has any such commission or regulatory authority passed comment upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

The Notes are expected to be assigned a rating of B1 by Moody's Deutschland GmbH ("**Moody's**") and B+ by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"). Each of Moody's and S&P is established in the European Union and registered under Regulation (EC) No 1060/2009 on credit rating agencies (as amended, the "**CRA Regulation**"). Any change in the rating of the Notes may adversely affect the price that a purchaser may be willing to pay for the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

The Notes will be issued, offered and sold in registered form in denominations of €100,000 and integral multiples of €1,000 in excess thereof. The Regulation S Notes will be represented by beneficial interests in a global unrestricted note certificate (the "**Regulation S Global Note**") in registered form without interest coupons attached and the Rule 144A Notes will initially be represented by a global restricted note certificate (the "**Rule 144A Global Note**" and, together with the Regulation S Global Note, the "**Global Notes**") in registered form, without interest coupons attached, which will both be registered in the name of a nominee for, and deposited on or about 16 December 2020 (the "**Closing Date**") with a common depositary (the "**Common Depositary**") for, and in respect of interests held through, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants. Individual note certificates (the "**Definitive Note Certificates**") evidencing holdings of Notes will be available only in certain limited circumstances. See "*Summary of Provisions Relating to the Notes in Global Form and Transfer Restrictions*".

This prospectus will be valid for 12 months from 14 December 2020. The obligation to supplement the Prospectus in the event of significant new factors, material mistakes or material inaccuracies will not apply when the Prospectus is no longer valid. For this purpose, "valid" means valid for admissions to trading on a regulated market by or with the consent of the Issuer and the obligation to supplement the prospectus is only required within its period of validity between the time when the prospectus is approved and the time when trading on a regulated market begins.

INVESTING IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "*RISK FACTORS*" BEGINNING ON PAGE 16.

Joint Lead Managers

BofA Securities | **Citigroup** | **Erste Group** | **Société Générale Corporate & Investment Banking**

The date of this Prospectus is 14 December 2020.

This Prospectus constitutes a prospectus for the purposes of the Prospectus Regulation. The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer, the information contained in this Prospectus is in accordance with the facts and this Prospectus makes no omission likely to affect the import of such information.

None of the Joint Lead Managers or any of their directors, affiliates, advisers and agents has made any independent verification of the information contained in this Prospectus in connection with the issue or offering of the Notes and no representation or warranty, express or implied, is made by any of the Joint Lead Managers or their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by any of the Joint Lead Managers or their respective directors, affiliates, advisers or agents in any respect. The contents of this Prospectus are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

None of the Joint Lead Managers or any of their respective directors, affiliates, advisers or agents shall be responsible for any act or omission of the Issuer or any other person in connection with the issue and offering of the Notes.

No person is authorised to give any information or make any representation not contained in this Prospectus in connection with the issue and offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Issuer, the Joint Lead Managers or any of their directors, affiliates, advisers or agents. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, imply that there has been no change in the affairs of the Issuer since the date hereof or that the information herein is correct as of any time subsequent to its date.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. Persons into whose possession this Prospectus may come are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Notes and the distribution of this Prospectus and other offering material relating to the Notes is set out under "*Subscription and Sale*".

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes and the admission of the Notes to the Official List and to trading on the Market. The Issuer and the Joint Lead Managers reserve the right to reject any offer to purchase Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States other than any QIB to whom an offer has been made directly by one of the Joint Lead Managers or its U.S. broker-dealer affiliate. The Joint Lead Managers are not U.S. registered broker-dealers and will not effect any sales of the Notes in the United States unless it is through one or more other U.S. registered broker-dealers as permitted by the Financial Industry Regulatory Authority, Inc.'s regulations or any other applicable U.S. laws and regulations. Distribution of this Prospectus to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB, is prohibited.

Each potential investor in the Notes must make its own assessment as to the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

(iv) understand thoroughly the terms of the Notes; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk based capital or similar rules.

STABILISATION

In connection with the issue of the Notes, Citigroup Global Markets Limited (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

MIFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES ONLY TARGET MARKET

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289) OF SINGAPORE

Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**") – All Notes shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded

Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

SERVICE OF PROCESS AND ENFORCEMENT OF FOREIGN JUDGMENTS

The Issuer is a foreign sovereign state. Consequently, it may be difficult for investors to obtain or realise upon judgments of courts in England against the Issuer without compliance with the Montenegrin enforcement procedure for foreign judgments. In addition, it may be difficult to enforce arbitral awards in Montenegro or it may not be possible for investors to effect service of process within the United States upon the Issuer or to enforce against the Issuer in or through courts located in the United States judgments obtained in courts located in the United States, respectively, or elsewhere, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.

It may not be possible to enforce in the courts of Montenegro any foreign court judgment (including a judgment obtained from a United States court) or arbitral award against Montenegro that is predicated upon the laws of a foreign jurisdiction, such as English law, without a re-examination of the merits of such judgment in the Montenegrin courts, although a re-examination of the merits of a judgment will generally not be conducted according to Montenegrin law.

The Notes and the Fiscal Agency Agreement, including any non-contractual obligations arising out of or in connection with the Notes and the Fiscal Agency Agreement, are governed by English law and the Issuer has agreed that any claims or disputes arising thereunder shall be referred to and finally settled by arbitration in accordance with the rules of the London Court of International Arbitration. Montenegro is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, with the reservations of reciprocity, commercial disputes and retroactive application of the Convention.

Where the noteholders are domestic persons (i.e. natural persons with domicile and habitual residence in Montenegro or legal persons established and seated in Montenegro), such noteholders would possibly not have the option to refer any Dispute (as defined in "*Terms and Conditions of the Notes—20. Governing Law; Jurisdiction and Arbitration*") to arbitration in accordance with the "*Terms and Conditions of the Notes—20. Governing Law; Jurisdiction and Arbitration – (b) Arbitration*". See "*Risk Factors—Risk Factors Relating to Montenegro—A claimant may not be able to enforce a court judgment or arbitral award against certain assets of Montenegro in certain jurisdictions*".

To the extent that the Issuer may in any jurisdiction claim or acquire for itself or its assets immunity from jurisdiction, suit, execution, attachment (whether in aid of execution of a judgment, before judgment or award or otherwise) or other legal process, including in relation to the enforcement of any arbitration award, and to the extent that in any such jurisdiction there may be attributed to itself or its assets such immunity (whether or not claimed), the Issuer has irrevocably consented to the enforcement of any judgment or award, agreed not to claim and irrevocably waived such immunity to the fullest extent permitted by the laws of the jurisdiction (under the laws of Montenegro such waiver of immunity does not apply in respect of (a) property used by diplomatic or consular mission of the Issuer or (b) property, weapons, equipment and funds serving the purpose of state security and defence or (c) assets that are non-tradable (*res extra commercium*), natural resources and goods in general use or (d) receivables of Montenegro on the basis of taxes, contributions and customs).

There is a risk that, notwithstanding the limited waiver of sovereign immunity by Montenegro in connection with the Notes, a foreign court judgment or arbitral award would not be recognised in Montenegro or enforced against certain assets of Montenegro in certain jurisdictions, including Montenegro (including the imposition of any arrest order or the attachment or seizure of such assets and their subsequent sale), without Montenegro having specifically consented to such enforcement at the time when the enforcement is sought. See "*Risk*

Factors—Risk Factors Relating to Montenegro—A claimant may not be able to enforce a court judgment or arbitral award against certain assets of Montenegro in certain jurisdictions".

PRESENTATION OF ECONOMIC AND OTHER INFORMATION

All references in this Prospectus to the "**Government**" and the "**Parliament**" are to the central government and the parliament of Montenegro, respectively.

Unless otherwise specified or the context so requires, references to "**U.S. Dollars**" and "**U.S.$**" are to United States dollars, references to "**euro**", "**EUR**" and "**€**" are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community as amended, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area and references to "**SDR**" are to special drawing rights allocated by the International Monetary Fund ("**IMF**").

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category or item of information may vary slightly reflecting such rounding and figures shown as totals (including those presented in tables) may not be an arithmetic aggregation of their components.

Gross Domestic Product ("**GDP**") is a measure of the total value of final products and services produced in a country. "**Nominal GDP**" measures the total value of final production in current prices. "**Real GDP**" measures the total value of final production in constant prices, thus allowing historical GDP comparisons that exclude the effect of inflation. Unless otherwise stated, references in this Prospectus to "**GDP**" are to Nominal GDP figures.

References to laws, including the Budget, refer to such laws (and the Budget), as amended from time-to-time.

Unless otherwise stated, all annual information, including budgetary information for Montenegro, is based on calendar years. Unless otherwise stated, all budgetary and statistical information as at and for the six months ended 30 June 2020, nine months ended 30 September 2020 and ten months ended 31 October 2020 is preliminary and subject to revision and amendment.

Statistical data appearing in this Prospectus has, unless otherwise stated, been obtained from the Statistical Office of Montenegro ("**MONSTAT**"), the Ministry of Finance, the Employment Agency of Montenegro and the Central Bank of Montenegro (the "**Central Bank**" or "**CBCG**''). Similar statistics may be obtained from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary significantly from source to source. In addition, statistics and data published by one ministry or agency may differ from similar statistics and data produced by other agencies or ministries due to differing underlying assumptions, methodology or timing of when such data is produced. Although every effort has been made to include in this Prospectus the most reliable and the most consistently presented data, no assurance can be given that such data was compiled or prepared on a basis consistent with international standards. However, as far as the Government is aware and is able to ascertain from the information published by these entities, the information has been accurately reproduced and no facts have been omitted which would render the reproduced information inaccurate or misleading. Certain statistical information contained herein is provisional or otherwise based on estimates that Montenegro and/or its agencies believe to be based on reasonable assumptions. Montenegro's official financial and economic statistics are subject to internal review as part of a regular confirmation process. Accordingly, the financial and economic information set out in this Prospectus may be subsequently adjusted or revised and may differ from previously published financial and economic information. While Montenegro does not expect such revisions to be material, no assurance can be given that material changes will not be made. See "*Risk Factors—Risk Factors Relating to Montenegro—Official economic data may not be accurate and could be revised*".

The last census in Montenegro was performed in 2011. Unless otherwise stated, estimates of total population, including estimates used to calculate per capita data, are based on MONSTAT's annual population estimates. See "*Montenegro—Geography and Population*" and "*Risk Factors—Risk Factors Relating to Montenegro—Official economic data may not be accurate and could be revised*".

FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Prospectus, as well as written and oral statements that Montenegro and its representatives make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, are or may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). However, this Prospectus is not entitled to the benefit of the safe harbour created thereby. Statements that are not historical facts, including, without limitation, statements about Montenegro's beliefs and expectations, are forward-looking statements. Such statements, certain of which can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "are expected to", "intends", "will", "will continue", "should", "could", "would be", "seeks", "approximately", "estimates", "predicts", "projects", "aims" or "anticipates", or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions, involve a number of risks and uncertainties. These statements are based on current plans, objectives, assumptions, estimates, projections or methods that may be incorrect or imprecise and that may be incapable of being realised. Therefore, undue reliance should not be placed on them. Forward-looking statements speak only as at the date on which they are made and Montenegro undertakes no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. Montenegro cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Forward-looking statements include, but are not limited to: (i) plans with respect to the implementation of economic policies and the pace of economic and legal reforms; (ii) expectations about the behaviour of the economy if certain economic and fiscal policies are implemented; (iii) the outlook for inflation, exchange rates, interest rates, foreign investment, trade and fiscal accounts; and (iv) estimates of debt repayment and debt service. In particular, investors are cautioned that the estimated information as to GDP for the full year 2020 is based on the latest available indicators as at 30 June 2020. The balance of payments data for 30 September 2020 indicates a potentially greater decline in GDP for the full year 2020 than the projections included herein.

As further set out in the risk factors (see "*Risk Factors*"), the below factors can also effect any forward-looking statements made herein:

(i) the course of the global COVID-19 pandemic and its effects on the global economy and the economy of Montenegro, including through its effects on travel restrictions and tourism flows;

(ii) decisions of international organisations regarding the terms of their financial assistance to Montenegro and, accordingly, the net flow to or from such international organisations over the life of the Notes;

(iii) adverse external factors, such as changes in the credit rating of Montenegro, higher international interest rates, low commodity prices or recession or low growth in Montenegro's trading partners or increases in world commodities prices, which could each decrease Montenegro's fiscal and foreign exchange revenues and could negatively affect the current account, balance of payments and international reserves and cause or contribute to recession or low growth in Montenegro;

(iv) adverse domestic factors, such as recession, decline in foreign direct investment ("**FDI**") and portfolio investment, high domestic inflation, high domestic interest rates, difficulties in borrowing in the domestic and foreign markets, changes in tariff and tax requirements (including tax rate changes, new tax laws and revised tax law interpretations), trade and political consensus, any of which could lead to lower growth in Montenegro and lower international currency reserves;

(v) relations with creditors;

(vi) decisions of international financial institutions such as the World Bank, the European Bank for Reconstruction and Development (the "**EBRD**") and the European Investment Bank (the "**EIB**") regarding the provision of funding for new or existing projects over the life of the Notes; and

(vii) political factors in Montenegro, including any political tensions, which may affect the timing and structure of economic reforms and the climate for FDI.

TABLE OF CONTENTS

Page

OVERVIEW

The following is an overview of certain information contained in this Prospectus. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus. Prospective investors should also carefully consider the information set out in the section entitled "Risk Factors" in this Prospectus prior to making an investment decision. See "Montenegro", "The Economy", "Balance of Payments and Foreign Trade", "Monetary and Financial System", "Public Finance" and "Indebtedness" for a more detailed description of the Issuer.

Overview of Montenegro

Geography and Population

Montenegro is located in South-Eastern Europe and is bordered by Croatia to the West, Bosnia and Herzegovina to the North-West, Serbia to the North-East, Kosovo to the East and Albania to the South-East. To the South-West, Montenegro has 293 kilometres of coastline on the Adriatic Sea, on the other side of which lies Italy.

Montenegro covers an area of approximately 14,000 square kilometres. The capital and administrative centre of Montenegro is Podgorica, where the Government and most of the other state institutions are located. The historic royal capital is Cetinje where certain of the country's governmental and cultural institutions and the office of the President of Montenegro (the "**President**") are located.

The total population of Montenegro is approximately 622,028 (according to 2019 data), with approximately 63 per cent. of the population living in urban areas and the remainder in rural areas (according to the last census conducted in 2011). The population density is approximately 45 persons per square kilometre. The highest population concentration is in the Podgorica municipality (including the municipality of Golubovci), which, together with the nearby municipality of Tuzi, has a population of approximately 199,715, making up approximately 31 per cent. of the national total. The official language in Montenegro is Montenegrin, although Serbian, Bosnian, Albanian and Croatian are also recognised. Eastern Orthodox Christianity is the most widely practised religion in the country.

Historical Background

The history of Montenegro dates back to the ninth century with the development of Duklja, which encompassed approximately the territories of present-day Montenegro. The medieval country had three reigning dynasties before it was annexed by the Ottoman Empire at the end of the 15th century, but managed to preserve a level of autonomy throughout. Following constant rebellions by the Montenegrins against the Ottoman Empire, Montenegro became a theocracy until 1852, when Prince Danilo decided to renounce his ecclesiastical position and, as a result, Montenegro became a principality.

Montenegro was the first Balkan country to achieve full independence in the Berlin Congress in 1878. In 1918, at the end of the First World War, it became part of the Kingdom of Yugoslavia ("**Yugoslavia**"), which was initially established as the union of the States of Slovenes, Croats and Serbs, and after the Second World War became a republic, one of six forming the Socialist Federal Republic of Yugoslavia. After the dissolution of the Socialist Federal Republic of Yugoslavia in 1992, Montenegro, together with Serbia, remained part of the Federal Republic of Yugoslavia. The status of the federation between Montenegro and Serbia was decided by the referendum on Montenegrin independence on 21 May 2006, and as a result Montenegro declared its independence on 3 June 2006.

The Economy

Comprehensive economic reforms in Montenegro and economic development based on the principles of private ownership, free markets, openness to trade, the free flow of capital and competitive tax policies contributed to growth in the country's GDP of approximately 7.5 per cent., on average, per annum in real terms between 2006 and 2008. Montenegro's declaration of independence in June 2006 also had a positive impact on economic growth. However, following the global financial and economic crisis between 2008 and 2009, Montenegrin GDP contracted by 5.8 per cent. in 2009. Montenegrin GDP then grew by 2.7 per cent. and 3.2 per cent. in 2010 and 2011, respectively, contracted by 2.7 per cent. in 2012 and grew by 3.5 per cent. and 1.8 per cent. in 2013 and 2014, respectively, in each case in real terms. In 2015 and 2016, Montenegrin GDP grew by 3.4 per cent. and 2.9 per cent., respectively, in each case, in real terms, and grew by 4.7 per cent. in 2017 in real terms. Real GDP growth was 5.1 per cent. in 2018, the highest in Montenegro since 2008 and the highest in the region, which includes Serbia, Albania, Romania, North Macedonia and Croatia (real GDP growth rates of 4.3 per cent., 4.1 per cent., 4.1 per cent., 2.7 per cent. and, and 2.6 per cent., respectively). Strong economic growth continued in 2019, with a real growth rate of 4.1 per cent., compared to 4.2 per cent. in Serbia, 2.2 per cent. in Albania, 4.1 per cent. in Romania, 3.55 per cent. in North Macedonia and 2.9 per cent. in Croatia. In the six months ended 30 June 2020, nominal GDP was €1,813.6 million and GDP contracted by 10.3 per cent. in real terms mainly due to the effects of the COVID-19 pandemic, as described below.

Due to the effects of the COVID-19 pandemic, the Government expects the nominal GDP to decline to €4,279.0 million in 2020, compared to €4,951.0 million in 2019, and real GDP to decline by 14.2 per cent. by the end of 2020, based on currently available indicators and expected developments by the end of 2020. As a result of a decline in revenues and an increase in spending, the general government budget deficit for 2020 is expected to amount to 10.6 per cent. of GDP, while the country's general government debt to GDP ratio is expected to increase to 88.6 per cent. of GDP (based on the latest available indicators as at 30 June 2020) from 76.54 per cent. of GDP at the end of 2019. The projection for the general Government debt at end of 2020 does not include the proposed offering of the Notes. The balance of payments data for the nine months ended 30 September 2020 indicates a potentially greater decline in GDP for the full year 2020 than the foregoing estimates. Going forward, the principal objectives for Montenegro include EU accession, further restructuring and reforming of the public sector and State administration, reducing the level of government debt relative to GDP, developing sustainable pension and health systems, reforming the judicial system, enacting labour market reforms and further improving the overall business environment. Many of Montenegro's recent and planned reforms are designed to harmonise with relevant EU standards.

Recent Developments

Coronavirus

The coronavirus known as COVID-19 which was first identified in Wuhan, Hubei Province, China in late 2019 has continued to spread in many countries (including Montenegro) around the world, leading the World Health Organisation to declare the outbreak of this communicable disease as a global pandemic on 11 March 2020. The Government of Montenegro announced an initial round of precautionary measures on March 13 designed to reduce the risk of transmission of COVID-19. Subsequent measures have also been introduced including the suspension of non-essential businesses (with restrictions on retail and hospitality businesses), the banning of all public gatherings and instituting curfews. As these preventative measures were shown to be effective in decreasing the intensity of the pandemic, the Government began easing the measures instituted in March 2020. However, after the lockdown was eased in May, Montenegro experienced a second wave of COVID-19, resulting in increased numbers of confirmed cases, requiring the Government to re-implement curfews, restrictions on public gatherings and non-essential businesses. As in other countries, the number of new infections have accelerated in Montenegro since early October and as of 29 November 2020, the total number of active COVID-19 cases recorded in Montenegro was 10,910. Since the beginning of the year, the total number of registered infection cases has reached 34,881. The total number of deaths associated with COVID-19 since the beginning of the year has reached 487. At present, the extent of the impact posed by a third wave of COVID-19 is unclear as both the severity and magnitude of the ensuing economic consequences are currently unknown.

The new Government of Montenegro has announced a number of COVID-19-related measures which include, among others (and in each case subject to certain specific exceptions):

- a ban on leaving residence from 7:00PM to 5:00AM the next day, subject to certain exceptions, including persons preforming services in the public interest and key workers such as those employed in the health system, inspection bodies, police, armed forces, fire services, utilities and media and other categories;
- a ban on inter-city passenger transport from 7:00PM on Friday to 5:00AM on Monday, except for certain categories such as motor vehicles performing activities essential for the transport of goods, supply and delivery of medicines, ambulance, utilities, supply of fuel and electricity, transportation of employees and other categories;
- a ban on presence and lingering of more than four adults together in open public places;
- prohibiting gatherings in residential buildings for persons who are not members of a joint family household;
- restrictions for companies engaged in the retail and fitness sector, including social distancing, disinfection and the use of personal protective equipment;
- a ban on athletic training and sports competitions other than professional athletes;
- a general ban on gatherings of the population in closed and open public places (i.e. public gatherings, public events, sports, political, cultural, artistic and private gatherings, weddings and other events); and
- the mandatory use of protective masks outdoors and indoors throughout Montenegro.

Fiscal and Economic Response to COVID-19

The period before the outbreak of the COVID-19 pandemic in Montenegro was characterised by positive macroeconomic trends, as evidenced by the achieved rates of economic growth, employment and wage growth, as well as the successful consolidation of public finances. Real GDP growth rates of 4.7 per cent. in 2017, 5.1 per cent. in 2018 and 4.1 per cent. in 2019, generated historically low unemployment rates in 2019 of 15.1 per cent. (the lowest level since 2006). The positive trends in the labour market were also confirmed by the registered number of employees, which was 203,545 in 2019, an increase of, 13,413 employees compared to 2018. Positive results recorded in nearly all economic sectors contributed to the level of growth which the Montenegrin economy has experienced over the last three years primarily due to construction, tourism and agriculture. Economic growth continued in the first quarter of 2020, as real GDP growth was 2.7 per cent. despite the introduction of measures aimed at protecting the health and well-being of Montenegro's population which limited economic activity.

In parallel, a comprehensive fiscal consolidation was carried out between 2017 and 2019 to ensure the stability and long-term sustainability of public finances. To that end, fiscal adjustment measures were implemented to ensure continuous growth of public revenues, which, along with the rationalisation of current spending, resulted in a reduction of the central government budget deficit from 5.8 per cent. in 2017 to below 3.0 per cent. in 2019. Comprehensive fiscal consolidation measures were implemented so as to minimise the negative impact on economic growth even under conditions involving large allocations for capital projects, such as the construction of the priority section of the highway between Bar and Boljare in Montenegro (the "**Bar-Boljare Motorway**"). Despite the implemented fiscal consolidation in the period 2017-2019, approximately €789.0 million was invested in capital projects. This successful fiscal consolidation led to more favourable borrowing conditions in the international capital markets, as evidenced by issuance of the Eurobonds in October 2019. These measures were positively received by the relevant international financial institutions, as evidenced by the two guarantees by the World Bank for €250 million commercial loans in 2018 and 2020 (Policy Based Guarantee 1 and Policy Based Guarantee 2) obtained based on development policies in the area of strengthening fiscal sustainability and financial sector resilience.

Positive economic trends were slowed when Montenegro, similarly to other countries, faced an outbreak of the COVID-19 pandemic. In response to this outbreak, the Montenegro government enacted measures aimed at protecting the public health which resulted in an overall decline in economic activity due to the suspensions or restrictions being placed on a significant number of economic entities.

In order to mitigate the negative effects of the COVID-19 pandemic to the economy, the Montenegro government has adopted three packages of measures (with additional measures adopted by the Central Bank, as described below).

The first package of measures was adopted on 19 March 2020, with a total value of €280.6 million, and was aimed at providing assistance to the most vulnerable categories of the population and creating conditions of increased liquidity within the economy and the Budget.

The first package of measures included the following key measures:

- deferral of payments of personal income tax and social security contributions and obligations under the Law on Reprogramming Tax Claims;
- establishment of a new credit line at the Investment Development Fund (in the amount of €120.0 million) for those sectors of the economy most severely affected by the restrictions on operations;
- payment of one-time financial assistance to low-income pensioners and social welfare beneficiaries in the amount of €50.0 each;
- an increase of wages for healthcare sector employees by up to 15 per cent.;
- advance payments to contractors for capital projects to ensure continuity of works and completion;
- the deferral of lease payments for state-owned real estate; and
- postponement of all non-mandatory expenditures by budget spending units and state-owned companies in order to ensure the liquidity of the Budget.

The second package of economic measures was approved on 24 April 2020 (and concluded in June 2020), with a total value of €39.2 million and was targeted at preserving employment rates and enabling economic recovery, and included additional measures aimed at strengthening liquidity in the economy. The second package included the following measures:

- direct subsidies for employee salaries, whereby the amount of subsidies provided (50-100 per cent. of gross minimum wage) was determined on the basis of whether an economic entity, as a beneficiary of subsidies, was affected by restrictions and to what extent (i.e. whether the entity closed or was at risk of closing). Tourism and agriculture as strategic branches of the Montenegrin economy were specifically targeted. Salary subsidies also included employees who were unable to work due to childcare needs for children under the age of 11, employees who have had to self-isolate or were quarantined, as well as salary subsidies for the newly employed workers in the SME sector;

- continuous financial support through favourable credit lines of the Investment Development Fund;
- shortening deadlines for VAT refunds and extensions of the custom guarantee limit for deferred payment of customs debt;
- energy firms exempting the fixed portion of electricity bills for businesses that have stopped operating due to the COVID-19-related lockdown and the state utility EPCG doubling its electricity subsidies for vulnerable households;
- assistance for the agriculture and fisheries sector, including one-off assistance for fishermen and payments for the contributions of insured agricultural workers; and
- one-time assistance of €50 to persons recorded as unemployed in the Employment Agency of Montenegro and for an additional category of pensioners which was not covered by the first set of measures.

The third package of economic measures was adopted on 23 July 2020, and comprises both short-term (amounting to €82.7 million) and long-term measures aimed at the recovery of the Montenegrin economy and the creation of conditions which provide further development through diversification of the economy and increased domestic production. The short-term measures are primarily aimed at providing continued support to the economy through wage subsidies (subsequently extended for the months of October and November of 2020) to those sectors of the economy that are most affected, as well as providing favourable credit lines (interest subsidies) in cooperation with commercial banks. Other short-term measures include: the reduction of VAT from 21 per cent. to 7 per cent. in the hospitality industry, programs for improving competitiveness, and one-off support for pensioners. Long-term measures are intended to create conditions for increased competitiveness of the economy, primarily in the tourism, agriculture and fisheries sector, energy, transport and information technology industries. The third package will be implemented over a four-year period, with an estimated total value of approximately €1.2 billion, including investment projects in the key sectors of the economy.

With a view to preserving stability during the COVID-19 pandemic, the Central Bank has undertaken comprehensive measures within its authority to maintain stability of the banking and financial systems.

To that end, since the COVID-19 outbreak in Montenegro and the introduction of general health protection measures, the Central Bank has implemented five packages of temporary measures aimed at preserving the liquidity position of clients by redirecting liquidity from the banking system to the economy and citizens, maintaining liquidity and credit potential, as well as long-term systemic resolution of the effects of permanent deterioration of clients' creditworthiness. For more information, see *"Monetary and Financial System—Fiscal and Economic Response to COVID-19"*.

During 2020, Montenegro was also supported by the EU in facing the consequences of the COVID-19 pandemic, with €53 million which were reallocated for this purpose from IPA II programmes. Montenegro is also benefiting from regional IPA II programmes, Western Balkans Investment Framework, but has also applied for the EU Solidarity Fund for further assistance due to COVID-19 consequences. Through the programme of Support to COVID-19-affected countries, the European Commission and Montenegro entered into a financing agreement in the amount of €60 million. This loan arrangement was given to Montenegro through the Macro-financial assistance Programme. The first tranche of €30 million was drawn in 2020, and the second tranche will be drawn in 2021. The tenor of the loan is 15 years and will be repaid as a bullet payment. In addition, in 2020, the Ministry of Finance and the IMF entered into a financing agreement in the amount of SDR 60.5 million (approximately €74 million) utilising the IMF's Rapid Financing Instrument. The Ministry of Finance obtained this financing as a response to COVID-19.

Political System and Developments

Constitution

The current constitution of Montenegro (the "**Constitution**") was ratified and adopted by the Constitutional Parliament on 19 October 2007. The Constitution established a democratic republic with a multiparty political system and is based on the separation of powers between the legislature, executive and judiciary. The Parliament subsequently adopted amendments to the Constitution on 31 July 2013, which were aimed at enhancing the independence of the judiciary.

Under the Constitution, the President serves a five-year term and may only serve two terms. In order to be eligible for the position, a person must be a citizen of Montenegro and must have lived in Montenegro for 10 of the 15 years prior to his candidature. The President proposes candidates for the role of Prime Minister of the Government (the "**Prime Minister**") who is then appointed by the Parliament. The Prime Minister, in turn, proposes Government Ministers for confirmation by the Parliament. The last presidential election was held on 15 April 2018. The next presidential election is scheduled to be held in 2023.

Legislature

Montenegro has a single chamber Parliament, which consists of 81 elected members who are elected in a national general election for a four-year term. The Parliament passes all laws of Montenegro, ratifies international treaties, appoints the Prime Minister, adopts the budget and performs all other duties specified for it in accordance with the Constitution. Laws are passed by majority vote, except that certain laws including those which deal with certain constitutional rights and the election of the Constitutional Court judges, Supreme State Prosecutor and members of the Council (as defined below) can only be passed by (in certain cases) a two-thirds majority of all members. The President promulgates laws validly enacted by the Parliament.

The last parliamentary elections were held in August 2020 and the next parliamentary elections are expected to take place in 2024.

The Executive

The President is elected by universal suffrage. The current President, Mr. Milo Đukanović, was elected with 53.9 per cent. of the total vote in the 2018 elections. Mr. Milo Đukanović also serves as the president of the Democratic Party of Socialists ("**DPS**") and previously served as Prime Minister (between 1991-1998, 2003-2006, 2008-2010 and 2012-2016) and President (between 1998-2002) of Montenegro. The President promulgates laws, calls elections for the Parliament, proposes candidates for the role of Prime Minister, confers decorations and awards and performs all other duties specified for him in accordance with the Constitution.

The Government is organised into 12 ministries and is led by the Prime Minister. Mr. Zdravko Krivokapic, the leader of the coalition For the Future of Montenegro, was elected as the Prime Minister on 4 December 2020.

The 2020 Election

On 30 August 2020, the opposition parties forming three coalitions, For the Future of Montenegro, Peace is Our Nation and In Black and White won the parliamentary elections in Montenegro combining for 50.62 per cent. of the vote. This resulted in the fall from power of the Democratic Party of Socialists, which had ruled the country since the introduction of the multi-party system in 1990. The voter turnout was at 73.4 per cent. Following their victory, the leaders of the three opposition parties agreed to form an expert government and to continue to work on the EU accession process.

The results of the 30 August 2020 elections are set out below:

	% of Votes	Seats
Parties		
Democratic Party of Socialists (DPS)	35.06	30
For the Future of Montenegro (ZBCG)	32.55	27
Peace is Our Nation (MNN)	12.53	10
In Black and White	5.54	4
Social Democrats (SD)	4.09	3
Bosniak Party	3.98	3
Social Democratic Party (SDP)	3.14	2
Albanians List (AL)	1.58	1
Albanian Coalition (AK)	1.14	1
Total	99.61	81

The Judicial System

Montenegro's three-tier judicial system is independent in accordance with the principle of division of power. The first level comprises the basic courts (the "**Basic Courts**"), with the superior courts (the "**Superior Courts**") making up the next level of the court system. The Supreme Court (the "**Supreme Courts**") is the highest court in Montenegro. Other specialised courts exist to deal with commercial and administrative law matters. Judges are elected by the Judiciary Council of Montenegro (the "**Council**"). The Council is appointed for four years and consists of the president of the Supreme Court (the "**Supreme Court President**"), four judges elected by the Conference of Judges (the "**Conference of Judges**"), four renowned lawyers elected by members of the Parliament and the Minister of Justice (the "**Minister of Justice**"). Judges are appointed for an indefinite term and may only be removed in accordance with the Constitution and the Law on Judiciary Council and Judges (the "**Law on Judges**"). In 2015, Montenegro set up a special prosecution office for organised crime and corruption, pledging to investigate high-level politicians.

The Constitutional Court (the "**Constitutional Court**") consists of seven judges who are elected for a 12-year term by the Parliament. It has the authority to annul unconstitutional laws and regulations, and to decide on jurisdictional questions between the legislature, executive and judiciary. It also has the power to impeach the President. The Constitutional Court's function includes protecting the constitutional freedom and rights of citizens.

EU Accession

Montenegro's full membership in the EU is a key strategic goal of the Government. In July 2009, Montenegro received the Questionnaire of the European Commission (the "**Questionnaire**") as a next step towards full membership of the EU. After responding to the Commission's initial questions (673 in total), Montenegro subsequently answered 74 additional questions in the Questionnaire and submitted it to the Directorate General for Enlargement on 12 April 2010. The country's EU Stabilisation and Association Agreement (the "**SAA**") became effective on 1 May 2010, which created an institutional framework for co-operation between Montenegro and the EU and resulted in the establishment of a Stabilisation and Association Council, a Stabilisation and Association Committee, seven sub-committees and a Parliamentary Stabilisation and Association Committee. Since then, Montenegro has continued to implement its obligations under the SAA. The Stabilisation and Association Council, Stabilisation and Association Committee and sub-committee meetings are held annually, while the stabilisation and association meetings between representatives of the European Parliament and the Montenegrin Parliament continue to be held bi-annually. Members of the Joint

Consultative Committee, which includes representatives from the EU Committee of the Regions and Montenegro's local authorities, were appointed in March 2012. A Civil Society Joint Consultative Committee, which consists of representatives of the European Economic and Social Committee and civil society organisations of Montenegro, held its inaugural meeting in October 2012.

On 17 December 2010, the European Council recognised Montenegro's progress by granting it candidate country status. In December 2011, the European Council launched the accession process with a view to opening negotiations in June 2012. The accession negotiations with Montenegro commenced on 29 June 2012. Until 2014, Montenegro was the only country in the Western Balkans involved in accession negotiations with the EU. Serbia commenced accession negotiations in January 2014. In March 2020, the EU gave its formal approval to begin accession talks with North Macedonia and Albania. However, Bulgaria vetoed the decision to open the EU accession negotiations with North Macedonia in November 2020.

The process of harmonisation with the EU *acquis* (the legislation and court decisions which constitute the body of EU law) has to take place prior to Montenegro's accession to the EU. The EU *acquis* is divided into 35 chapters for the purposes of negotiations between the EU and the candidate member states, of which only 33 chapters are applicable to Montenegro. In order to meet the EU accession criteria, each chapter is screened by the European Commission, following which negotiations with respect to each chapter are opened and continue until resolved, at which point the chapter is considered to be closed.

Within the framework of the accession negotiations, the entire screening process was completed in May 2014. Based on the results of the screening, the Government adopted its Accession Program of Montenegro to the European Union 2014-2018, which was followed by the 2018-2020 Accession Program. In order to be able to define in a strategic, comprehensive and clear way the commitments, scope and dynamics of the reforms that are necessary for further adjustment of Montenegro to EU acquis, the 2019-2020 Accession Programme of Montenegro to the European Union was adopted in January 2019. In February 2020, the new 2020-2022 Accession Programme of Montenegro to the European Union has been adopted with the aim of streamlining the commitments in the coming years to allow (or facilitate) more balanced negotiations and enable the fulfilment of the commitments set in the European agenda. As of 26 November 2020, Montenegro has opened and provisionally closed three negotiating chapters, with a further 30 chapters opened. Between 2012 and 2018, Montenegro opened and provisionally closed Chapter 25 (*Science and Research*), Chapter 26 (*Education and Culture*) and Chapter 30 (*External Relations*). Negotiation chapters are provisionally closed by the EU if the candidate country's adoption of the *acquis communautaire* and its degree of implementation are seen as sufficient. At the end of the negotiation process, all chapters are subject to reassessment after which they are ultimately closed. There are two reasons for this procedure. First, as the negotiations take place over many years, significant changes might occur in the *acquis communautaire* during the negotiations and the candidate country is expected to adjust to these changes. Second, the candidate country's degree of harmonisation in the provisionally closed chapter might have deteriorated. See "*Montenegro – International Relations – Montenegro's relationship with the international community – EU*" for further detail on the chapters that remain open.

On 6 October 2020, the European Commission published the 2020 Country Report on Montenegro (the "**Montenegro 2020 Report**"). This was the eighth progress report on Montenegro since the country opened accession negotiations with the EU in June 2012. In the Montenegro 2020 Report, it was stated that a track record of investigations, prosecutions and final convictions in cases of high level corruption has been established. On fundamental rights, Montenegro made some progress and the legislative and institutional framework in the area of fundamental rights is now largely in place. In July 2020, the Law on Life Partnership of Same-Sex Partners was enacted by the Parliament, making Montenegro the first country in the region to regulate the status of same-sex couples. Montenegro is moderately prepared in the fight against organised crime, where some progress has been made, including in addressing the previous year's recommendations, in particular as regards the creation of a centralised bank account register, a stronger capacity and professionalism of the police and an increased number of on-going proceedings on asset confiscation. The initial track record on money laundering was further developed, and the country continued to show gains in the fight against human trafficking. Additionally, the Status Agreement between the European Union and Montenegro on actions carried out by the European Border and Coast Guard Agency ("**FRONTEX**") was ratified by both sides and entered into force on 1 July 2020. Montenegro became the second country (after Albania) to conclude such an agreement with the EU, and this agreement paves the way for closer cooperation between Montenegro and FRONTEX, including more opportunities for the implementation of good EU practices. The institutions in charge of ensuring the rule of law have quickly adapted to the new extraordinary circumstances caused by COVID-19, and these specific conditions have not affected their work. Furthermore, Montenegro has continued to make progress in fulfilling the economic criteria for membership in the EU, while alignment and preparation for the implementation of the *acquis communautaire* has taken place in most areas.

The timing of Montenegro attaining full membership of the EU will depend on a number of economic and political factors relating to both Montenegro and the EU. On 6 February 2018, the EU adopted its EU-Western Balkans strategy, which set out certain indicative steps which Montenegro will need to complete in order to potentially be ready for EU membership by 2025. This EU strategy states that accession in 2025 will ultimately depend on strong political will, the delivery of real and sustained reforms, and definitive solutions to disputes with neighbours. Although it is not possible to guarantee EU accession or to predict the exact date of accession to the EU, the Government believes that progress has been achieved in opening negotiation chapters and Montenegro's timelines in meeting opening, interim and closing benchmarks.

Overview of Risk Factors Relating to the Issuer and the Notes

Risks Associated with Emerging Markets

- Investments in securities of sovereign issuers in emerging markets such as Montenegro are subject to greater risk than investments in countries with more developed market economies and mature political and legal systems.

Risk Factors Relating to Montenegro's Economy

- The economic effects of the outbreak of COVID-19 could adversely affect Montenegro's economy.
- The Montenegrin economy remains vulnerable to external shocks, which could have an adverse effect on Montenegro's economic growth and Montenegro's ability to repay principal and make payments of interest on the Notes.
- Larger fiscal imbalances and higher rates of growth in overall levels of Government borrowing could have an adverse effect on Montenegro's economic growth and Montenegro's ability to repay principal and make payments of interest on the Notes.
- Montenegro may not succeed in implementing its proposed economic, financial and other reforms and policies, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes.
- Montenegro depends on its tourism industry as a significant source of revenue and any deterioration in its tourism industry may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes.
- Political tensions may affect the implementation of Montenegro's proposed economic and other reforms and Montenegro's ability to repay principal and make payments of interest on the Notes.

- Montenegro may not become a member of the EU in the near to medium term or at all, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes.
- Montenegro's credit rating may deteriorate, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes.
- A decrease in the lending activities of Montenegrin banks may have an adverse effect on the overall economy, in particular small and medium-sized enterprises operating in the service sector and may have an adverse effect on Montenegro's ability to repay principal and make payments of interest on the Notes.
- Montenegro suffers from high levels of unemployment which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes.
- Official economic data may not be accurate and could be revised which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes.
- The Prospectus includes projected GDP and other data, which may not be realised.
- Corruption, money laundering and organised crime issues may hinder the growth of the Montenegrin economy, delay or foreclose EU accession and otherwise have a material adverse effect on Montenegro and its ability to repay principal and make payments of interest on the Notes.

Risks Associated with Montenegro's Debt

- If Montenegro's public debt continues to grow to finance its budget deficit, Montenegro may not be able to service its public debt and, as a result, may not be able to repay principal and make payments of interest on the Notes.
- Montenegro's debt level may be affected by currency fluctuations.
- Montenegro may not be able to refinance its debt on favourable terms or at all.
- Potential liabilities from litigation could increase Montenegro's public debt and could adversely affect Montenegro's ability to repay principal and make payments of interest on the Notes.

Risks Associated with Montenegro's Banking Sector

- Asset quality deterioration could cause Montenegrin banks to be not in compliance with regulatory requirements, including capital adequacy requirements, and/or to reduce their lending activities, which could have an adverse effect on growth prospects for the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes.
- The high level of foreign ownership in the Montenegrin banking system makes it vulnerable to disruption as a result of internal or external factors, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes.
- As a result of the adoption of the euro as the Montenegrin currency, the Central Bank's ability to regulate monetary policy and provide liquidity to the Montenegrin banking system is limited, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes.
- The Central Bank is not a member of the European System of Central Banks or the European Central Bank and, as a result, does not benefit from any support programmes provided by these institutions to EU member states or to financial institutions located in EU member states, which may adversely affect

the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes.

Risks Associated with Montenegro's Legal System

- Montenegro's legal system is not fully developed and presents greater risks and uncertainties than a more developed legal system, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes.
- The uncertainties relating to the Montenegrin judicial system could have an adverse effect on its economy and thus on the ability of Montenegro to repay principal and make payments of interest on the Notes.
- A claimant may not be able to enforce a court judgment or arbitral award against certain assets of Montenegro in certain jurisdictions.

Risk Factors Relating to the Notes

- The Issuer may choose to grant preferential treatment to other unsecured creditors.
- The Notes contain a "collective action" clause under which the terms of the Notes may be amended, modified or waived without the consent of all of the Noteholders.
- An active trading market for the Notes may not develop and any trading market that does develop may be volatile.
- Investors may face foreign exchange risks by investing in the Notes.
- The Notes are subject to optional redemption by the Issuer.
- Credit ratings may not reflect all risks.
- Notes where denominations involve integral multiples: definitive Notes.
- Change of law.

Overview of the Terms of the Offering

*Capitalised terms not otherwise defined in this overview have the same meaning as in the terms and conditions of the Notes (the "**Conditions**"). See the Conditions for a more detailed description of the Notes.*

Issuer	State of Montenegro (represented by the Government of Montenegro, acting by and through its Ministry of Finance).
Notes Offered	EUR 750,000,000 2.875 per cent. Notes due 2027.
Issue Date	16 December 2020.
Maturity Date	16 December 2027 (the "**Maturity Date**").
Interest on the Notes	2.875 per cent. per annum.
Interest Payment Dates	Interest on the Notes will be payable annually in arrear on 16 December of each year, commencing on 16 December 2021, up to (and including) the Maturity Date. See "*Terms and Conditions of the Notes—7. Interest*".
Interest Amounts	The amount of interest payable on each Interest Payment Date shall be EUR 28.75 per EUR 1,000 in principal amount of Notes.
Issue Price	99.532 per cent. of the principal amount of the Notes.
Yield	As at the Issue Date and on the basis of the Issue Price, the yield of the Notes is 2.950 per cent. per annum.
Redemption	The Issuer will redeem the Notes at their principal amount on the Maturity Date. See "*Terms and Conditions of the Notes—9. Redemption and Purchase*".
Residual Maturity Call at the Option of the Issuer	The Issuer may, at its option, from and including the date falling 3 months prior to the Maturity Date to but excluding the Maturity Date, subject to having given not less than 30 nor more 60 calendar days' prior notice to the Noteholders in accordance with Condition 17 (*Notices*) (which notice shall be irrevocable and shall specify the date set for redemption), redeem all, but not some only, of the outstanding Notes at their principal amount plus accrued interest up to but excluding the date set for redemption.
Denominations	The Notes will be offered and sold, and may only be transferred, in minimum principal amounts of €100,000 and integral multiples of €1,000 in excess thereof.
Status	The Notes will constitute direct, general, unconditional and (subject to the provisions of a negative pledge covenant described below) unsecured obligations of the Issuer and the full faith and credit of the Issuer is pledged for the due and punctual payment of principal and interest on the Notes and for the performance of all obligations of the Issuer in respect of the Notes. The Notes will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer. The status provision does not require the Issuer to effect

	equal or rateable payment(s) at any time with respect to any such other unsecured obligations of the Issuer and, in particular, the Issuer shall have no obligation to pay other unsecured obligations at the same time or as a condition of paying sums due under the Notes and vice versa. See also "*Risk Factors—Risk Factors Relating to the Notes—The Issuer may choose to grant preferential treatment to other unsecured creditors*".
Negative Pledge	So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement), the Issuer shall not create or permit to subsist any Security Interest other than a Permitted Security Interest upon the whole or any part of its present or future undertaking, assets or revenues to secure any of its Public Indebtedness or any Guarantee of any Public Indebtedness of any other person, unless the Issuer shall, in the case of the creation of any Security Interest, at the same time or prior thereto, and in any other case, promptly, procure that all amounts payable in respect of the Notes are secured equally and rateably therewith or provide such other security or arrangement for the Notes as may be approved by a resolution of the requisite majority of Noteholders or written resolution of Noteholders, in each case in accordance with Condition 14 (*Meetings of Noteholders; Written Resolutions*). See "*Terms and Conditions of the Notes—5. Negative Pledge*".
Events of Default	The Conditions will permit the acceleration of the Notes following the occurrence of certain events of default. Upon the occurrence of an Event of Default, holders of not less than 25 per cent. in aggregate principal amount of the outstanding Notes may, by written notice to the Issuer (with a copy to the Fiscal Agent at its Specified Office), declare the Notes immediately due and payable and all principal, interest and all additional amounts payable on the Notes will become immediately due and payable on the date the Issuer receives such written notice of the declaration. If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to such declaration of acceleration is or are cured following any such declaration and that such holders wish the declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent at its Specified Office), whereupon the declaration shall be withdrawn and shall have no further effect. No such withdrawal shall affect any other or any subsequent Event of Default or any right of any relevant Noteholder in relation thereto. See "*Terms and Conditions of the Notes—12. Events of Default*".
Form of Notes	The Notes will be in registered form, without interest coupons.

	Notes sold in offshore transactions in reliance on Regulation S will initially be in the form of a Regulation S Global Note, which will be deposited outside the United States with a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee for such common depositary. Notes sold to QIBs in reliance on Rule 144A will be issued initially in the form of a Rule 144A Global Note, which will be deposited outside the United States with a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee for such common depositary.
Taxation and Additional Amounts	All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Montenegro or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. As at the date of this Prospectus, withholding tax of 9 per cent. is applicable under Montenegrin law to payments of interest in respect of the Notes, except where any applicable double taxation treaty stipulates otherwise. Where such withholding tax is payable, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, subject to certain exceptions set out in "*Terms and Conditions of the Notes—10. Taxation*".
Modification and Amendment	A summary of the provisions for convening meetings of Noteholders and amendments is set forth under "*Terms and Conditions of the Notes—14. Meetings of Noteholders; Written Resolutions*" and "*Terms and Conditions of the Notes—16. Noteholders' Committee*".
Use and Estimated Net Amount of Proceeds	The estimated net proceeds of the issue of the Notes, after deduction of commissions, fees and estimated expenses, will be approximately EUR 745,020,000. In accordance with the 2020 Budget Law (Official Gazette 74/19 and 61/20) and the 2020 Borrowing Decision (Official Gazette 74/19 and 61/20), the net proceeds of the issue of the Notes will be used by the Issuer for the creation of fiscal reserves for financing of the 2021 budget and the proceeds will be applied towards budget deficit purposes and debt refinancing purposes of the Issuer. See "*Use and Estimated Net Amount of Proceeds*".
Ratings	The Notes are expected to be assigned a rating of B1 by Moody's and B+ by S&P. Each of Moody's and S&P is established in the European Union and registered under the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and

	may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Listing and Admission to Trading	Application has been made to admit the Notes to the Official List of the FCA and to trading on the Market.
Governing Law	The Notes will be governed by English law.
Transfer Restrictions	The Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws. Consequently, the Notes may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. See "*Summary of Provisions Relating to the Notes in Global Form and Transfer Restrictions*".
Fiscal Agent, Paying Agent and Transfer Agent	Citibank, N.A., London Branch.
Registrar	Citigroup Global Markets Europe AG.
ISINs	XS2270576700 Regulation S Global Note. XS2270576882 Rule 144A Global Note.
Common Codes	227057670 Regulation S Global Note. 227057688 Rule 144A Global Note.

RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully consider the following risks, and the other information contained in this Prospectus, before they decide to invest in the Notes. The trading price of the Notes could decline due to any of these risks, and potential investors could lose all or part of their investment. The risks described below are not the only risks the Issuer faces. The Issuer has described only the risks that it considers to be material. However, there may be additional risks that the Issuer currently considers not to be material or of which it is not presently aware. If any of the following risks were to materialise, the Issuer's economy could be materially adversely affected and it could affect the Issuer's ability to meet its obligations under the Notes.

Risks Associated with Emerging Markets

Investments in securities of sovereign issuers in emerging markets such as Montenegro are subject to greater risk than investments in countries with more developed market economies and mature political and legal systems

Investments in securities of sovereign issuers in emerging markets, including Montenegro, are subject to greater risks than investments in countries with more developed market economies and mature political and legal systems and carries in some cases significant legal, economic and political risks. For example, emerging markets are subject to economic instability caused by a variety of factors such as a narrow export base, reliance on imports, fiscal and current account deficits, reliance on foreign investment, high unemployment and changes in the political, economic, social, legal and regulatory environment. In addition, changes in the political situation, such as a change of government in Montenegro following the recent parliamentary elections in August 2020 (or in the relationship amongst coalition parties within the new Government) or increasing gridlock in the legislative process, could impede or slow down economic progress and actions of governments may be challenged or reversed by future governments. Although progress has been made in reforming the economy and the political and judicial system, the Montenegrin legislative framework is still not entirely in line with the standards adopted, for example, by EU member states or the United States. In addition, even when reform of the economic, political, judicial and legislative systems and frameworks has been achieved, Montenegro may face difficulties or delays in successfully implementing them due to a slow pace of change, limited institutional capacity and historical experience or other factors.

Moreover, financial unrest or instability experienced in global financial markets and/or one or more countries located in an emerging market, could potentially have a negative impact on Montenegro's economy. Since January 2020, the COVID-19 outbreak and fear of the further spread of COVID-19 have caused significant disruptions in international economies and financial markets, the severity and duration of which is dependent on numerous evolving factors, which are highly uncertain, rapidly changing and difficult to predict. These events have affected investment sentiments and resulted in irregular activities in the global markets and continuation of such adverse conditions could lead to a prolonged weakening of economic conditions, potentially causing a global recession, which could have a pronounced impact on emerging markets, including Montenegro. Any material changes as a result of such events or developments may materially and adversely affect the availability of foreign investments in Montenegro and possibly exert adverse effects on Montenegro's ability to grow its economy sustainably based on investments in fixed capital and net exports, including long-term infrastructure projects which are partially funded by FDI. See *"– The economic effects of the outbreak of COVID-19 could adversely affect Montenegro's economy*".

The economy of Montenegro could also be adversely affected by negative economic or financial developments in neighbouring countries or European countries more broadly, in addition to those of emerging markets more generally. For example, the economy of Montenegro is associated with, and subject to similar risks as, the other economies of the Balkan region. Economic and financial difficulties (including as a result of the outbreak of COVID-19) affecting such countries may negatively affect Montenegro's economy. Foreign investors may associate the difficulties experienced by these economies with Montenegro's economy, which may adversely affect investments in Montenegro. Additionally, risks related to economic development in Europe have had and, despite past periods of moderate stabilisation, may continue to have a negative impact on global economic activity and financial markets. There can be no assurances that a tightening of liquidity conditions as a result of, for example, further deterioration of public finances of certain European countries due to the outbreak of COVID-19, will not lead to new funding uncertainty or result in increased volatility and widening of credit spreads. Additionally, concerns about credit risk (including that of sovereigns) and large sovereign debts and/or fiscal deficits of several European countries (including Portugal, Italy, Ireland, Cyprus, Greece and Spain) have, from time to time, in recent years caused significant disruptions in international capital markets. Such disruptions have led to, and may in the future as a result of the outbreak of COVID-19 or otherwise lead to, increased market volatility, reduced liquidity and inflated credit risk premiums for certain market participants or result in a reduction of available financing, all of which could adversely affect the global financial markets in ways which are difficult to predict. If these conditions continue to persist, or should there be any further turbulence in these or other markets, this could have a material adverse effect on Montenegro's ability to access foreign investment or sustain its GDP growth. Accordingly, Montenegro's economy and its capacity to repay principal and/or interest on the Notes may be adversely affected by financial and/or economic crises that are existing or may occur in the future, including, but not limited to, as a result of issues arising from the ongoing COVID-19 pandemic or linked to an economic slowdown in the Eurozone or owing to a prolonged recession or depression in the global economy.

Investors should also note that emerging economies, such as Montenegro's, are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging countries is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult their own legal and financial advisers before making an investment in the Notes.

Risk Factors Relating to Montenegro's Economy

The economic effects of the outbreak of COVID-19 could adversely affect Montenegro's economy

COVID-19 which was first identified in Wuhan, Hubei Province, China in late 2019 has continued to spread to most countries around the world, leading the World Health Organisation to declare the outbreak of this communicable disease as a global pandemic on 11 March 2020. Several governments have since implemented various restrictions, including restricting travel, closing borders, instituting curfews, suspending non-essential businesses, restricting public gatherings, quarantining people who may have been exposed to the virus, imposing lockdowns or extended shutdowns and placing limitations on business operations. The Government of Montenegro announced an initial round of precautionary measures on March 13 designed to reduce the risk of transmission of COVID-19. For a detailed list of subsequent measures that have been taken by the Montenegro government please see "*Overview—Recent Developments—Coronavirus*". As of 29 November 2020, the total number of active COVID-19 cases recorded in Montenegro was 10,910.

The restrictive measures enacted worldwide, whilst aimed to slow the spread of COVID-19, have had an indeterminable adverse impact on the global economy, which has so far included disruption to global supply chains, significant reduction in global economic activities, temporary closures of many businesses and worsening of unemployment levels. Such measures have also caused stock markets worldwide to lose significant value and have led to significant volatility, uncertainty and disruption in global financial markets, the severity and duration of which will depend on future developments, which are highly uncertain and cannot be accurately predicted.

As the outbreak of COVID-19 slowed in a number of countries that were affected early on in the spread of the disease, some of the related precautionary and preventative measures implemented in March have since been partially lifted and/or relaxed, resulting in a gradual reopening of businesses and workplaces. However, it remains unclear how long and the manner in which any such preventive measures (including any potential re-introduction of restrictive measures or implementation of more far-reaching restrictions or measures than those already announced) will remain in place and what their ultimate impact will be on global and local economies. Like other countries, the emergence of COVID-19 poses a new risk to the financial health of Montenegro. In particular, real GDP of Montenegro declined by 10.2 per cent. in the first half of 2020 and is expected to decline by 14.2 per cent. by the end of 2020, while fiscal measures adopted to fight the economic effects of the pandemic, as described elsewhere in this Prospectus, will increase public sector borrowing requirements with the general government budget deficit for 2020 expected to amount to 10.6 per cent. of GDP, while the country's general government debt to GDP ratio is expected to increase to 88.6 per cent. of GDP from 76.54 per cent. of GDP at the end of 2019. Investors are cautioned that the estimated information as to GDP for the full year 2020 is based on the latest available indicators as at 30 June 2020. The projection for the general Government debt at end of 2020 does not include the proposed offering of the Notes. The balance of payments data for the nine months ended 30 September 2020 indicates a potentially greater decline in GDP for the full year 2020 than the foregoing estimates.

The economic growth of Montenegro in the coming periods will depend on a variety of factors, including, among others, external demand for the country's exports and services, confidence among Montenegro's consumers and foreign/domestic investors and their rates of investment in the country, a rebound of tourism, the willingness and ability of businesses to engage in new capital spending and the rate of inflation.

Some of these factors are outside the control of Montenegro as most of these elements, to a large extent, will depend on the duration and spread of COVID-19, its severity, actions taken to contain the virus or treat its impact, the extent and effectiveness of economic stimulus taken to mitigate its impact or treat its eventual aftermath and how quickly and to what extent normal economic and business activity can resume. Therefore, in spite of the economic activity, the economic outlook of Montenegro remains highly uncertain, reflecting the unpredictable course of the pandemic and the related economic disruptions it may cause in Montenegro and its trading partners. With the trajectory of the virus, and therefore its economic impact, still subject to significant uncertainty, there can be no assurance that the economy of Montenegro will not continue to be adversely affected in the coming months. More so, as the COVID-19 pandemic is ongoing, its dynamic nature, and the related uncertainties, makes it difficult to predict or estimate reliably the degree of the risk posed by the virus. However, the risk of weakening of economic conditions is more likely to be heightened amid the seeming onset of a third wave of coronavirus cases since early October when the number of new infections accelerated in several countries (including Montenegro). A further worsening of the outbreak, due to a renewed surge in the virus, could lead to a more severe contraction in the last quarter of 2020 and a weaker recovery in 2021 and implicate additional measures (or economic incentive measures). At present, the extent of the impact posed by the third wave of COVID-19 is unclear.

The uncertainties caused by the ongoing pandemic also mean that the economic and fiscal projections of many countries, including Montenegro, are expected to be continually revised, causing key fiscal and economic indicators to be subject to some degree of uncertainty. As of the date of this Prospectus, the trajectory of the COVID-19 outbreak remains highly uncertain but if the spread of the virus is severe in Montenegro or elsewhere, there is a risk that more far-reaching restrictions or measures than those already announced, will be taken to contain its spread or mitigate its impact. Implementation of such measures in Montenegro could lead to or be the source of political and social discontent in the country. Such restrictive measures as a result, could have adverse effects on Montenegro's economy and financial markets, which could be severe and likely affect its ability to repay principal and make payments of interest on the Notes.

The Montenegrin economy remains vulnerable to external shocks, which could have an adverse effect on Montenegro's economic growth and Montenegro's ability to repay principal and make payments of interest on the Notes

The Montenegrin economy is vulnerable to external shocks and remains exposed to deterioration in global economic conditions, including, but not limited to, as a result of the ongoing outbreak of COVID-19. For example, any significant decline in the economic growth of Montenegro's main trading partners as a result of the ongoing outbreak of COVID-19 or otherwise, including the EU member states, or any other deterioration in Montenegro's relationships with such trading partners, could have an adverse effect on Montenegro's balance of trade and adversely affect Montenegro's economic growth. The export-orientated activities, including tourism, which are significant contributors to Montenegro's GDP, were impacted severely as a result of global restrictive measures introduced to contain the spread of COVID-19. Whilst the continued economic impact of the COVID-19 outbreak is uncertain, concerns remain as to whether the stimulus and other economic actions taken by a number of countries (including Montenegro's key trading partners) to mitigate its impact, will counter the anticipated macro-economic risks. It is also unclear as to when the restrictive measures imposed in many countries in an attempt to contain the virus will be deemed successful and therefore completely lifted. A prolongation of the outbreak could significantly and adversely affect economic growth and impact business operations across the globe generally, including within Montenegro and its trading partners.

Furthermore, geopolitical instability, the default or a significant decline in the credit rating of one or more sovereigns or financial institutions, or any EU and/or Eurozone exits, could cause severe stress to the financial system generally and could adversely affect the global financial markets in ways which are difficult to predict.

Any of the foregoing external events can cause sharp declines in FDI inflows to, and exports of goods by, Montenegro. For example, FDI in Montenegro was increasing until 2009, when it decreased by approximately 56.2 per cent. compared to the previous year due to the effects of the global financial and economic crisis. In 2018, net FDI amounted to €322.5 million, the lowest level since 2004 due to a significant increase in outflow from the repayment of intercompany debt as well as the withdrawal of the equity investments of a large company. In 2019, net FDI amounted to €305.1 million, a decline of 5.4 per cent. compared to the prior year, while in the first six months of 2020 net FDI increased by 14.2 per cent. compared to the same period in 2019. Any further declines in the flow of investment into the Montenegrin economy could lead to lower potential growth in the medium term, which may impair Montenegro's ability to sustain its historical GDP growth. See "*Balance of Payments and Foreign Trade—FDI*".

Any future decrease in GDP or FDI inflows may adversely affect Montenegro's ability to grow its economy sustainably based on investments in fixed capital and net exports, including long-term infrastructure projects and industrial projects mainly funded by FDI. Additionally, a significant decline in the economic growth of Montenegro's main trading partners, including Serbia, EU member states and Russia, or any other deterioration in Montenegro's relationships with such trading partners, could also have an adverse effect on Montenegro's balance of trade and/or tourism activity and adversely affect Montenegro's economic growth. Furthermore, political relations between Montenegro and Russia (which is a key source of tourism flows for Montenegro with Russian tourists accounting for approximately 24 per cent. of tourist arrivals in 2020), have deteriorated in recent years, following Montenegro's formal accession to NATO and its decision to support the sanctions imposed by the EU on the Russian Federation. See "*Montenegro—Montenegro and regional relationships—Russia*". A decline in the economy of a significant partner or a further deterioration in relations between Montenegro and its partners, including Russia, could have an adverse effect on Montenegro's economic growth. These economic factors could have a material adverse effect on Montenegro's ability to repay principal and make payments of interest on the Notes and on Montenegro's credit rating.

Larger fiscal imbalances and higher rates of growth in overall levels of Government borrowing could have an adverse effect on Montenegro's economic growth and Montenegro's ability to repay principal and make payments of interest on the Notes

The fiscal space of Montenegro has eroded in recent years due to large capital outlays, which in turn has contributed to the rapid build-up of public debt. As at the date of this Prospectus, the COVID-19 pandemic is creating new budgetary strains for Montenegro, with health spending and other expenditures continuing to rise and the economic contraction resulting in lower revenues. Such large fiscal imbalances and higher rates of growth in overall levels of Government borrowing could have negative effects on Montenegro's economy as a whole. In particular, real GDP of Montenegro declined by 10.2 per cent. in the first half of 2020 and is expected to decline by 14.2 per cent. by the end of 2020, while fiscal measures adopted to fight the economic effects of the pandemic, as described elsewhere in this Prospectus, will increase public sector borrowing requirements with the general government budget deficit expected to amount to 10.6 per cent. of GDP in 2020, while the country's general government debt to GDP ratio is expected to increase to 88.6 per cent. of GDP from 76.54 per cent. of GDP at the end of 2019. Investors are cautioned that the estimated information as to GDP for the full year 2020 is based on the latest available indicators as at 30 June 2020. The projection for the general Government debt at end of 2020 does not include the proposed offering of the Notes. Balance of payments data for 30 September 2020 indicates a potentially greater decline in GDP for the full year 2020 than the foregoing estimates. In the event Montenegro is faced with such prolonged negative economic climate, the Government may need to implement further cost reductions or introduce new measures with additional fiscal incentives in order to mitigate the potential long-lasting impact of the COVID-19 pandemic. Such measures may lead to further deterioration of Montenegro's public finances, adversely impede or constrain Montenegro's overall economic growth or limit policy options due to reduced availability of funds to make capital investments needed for economic growth. Accordingly, if the Government is not able to implement policies and reforms to achieve budgetary targets and limit Montenegro's fiscal deficit, it could have an adverse effect on the Montenegro's economy, in particular its ability to fund capital expenditures which could limit growth in the economy. Although the Government expects the fiscal balance to improve in 2021, the budget will remain in deficit and will therefore continue to rely on external funding. Any significant increase in future domestic or external borrowings to finance the budget deficit, or provide financial support to the economy as a consequence of COVID-19 or otherwise, could elevate its debt burden and put significant strain on fiscal and debt sustainability in the coming years. In particular, any significant further fiscal slippage (e.g., as a result of implementing further phases of the Bar-Boljare project or other large public investment projects), if not promptly addressed, could cause concerns regarding the debt sustainability of Montenegro. Furthermore, any future lack of agreement between the major European governments on how to use fiscal and monetary measures to support the Eurozone economies that are in difficulty, including due to the continued effects of the COVID-19 pandemic, or a tighter monetary policy stance by the European Central Bank, could adversely affect the economy of the Eurozone countries and the conditions of the Euro funding markets. Given Montenegro's geographic, political and economic ties to the rest of Europe, and its use of the euro, the impact of these conditions could be detrimental to Montenegro and could have a material adverse effect on the ability of Montenegro to fund payments on its debt obligations, including the Notes.

Montenegro may not succeed in implementing its proposed economic, financial and other reforms and policies, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

Since declaring independence from the State Union of Serbia and Montenegro in 2006, Montenegro has been pursuing a programme of economic structural reform with the objective of establishing a market-based economy through privatisation of state enterprises and deregulation of the economy. See "*The Economy—Economic Developments and Trends—Economic reforms*". The legislative reform process is ongoing and Montenegro may experience difficulties implementing existing or future reforms. Montenegro has made progress in the transition to a functioning market-based economy. However, the rebuilding of Montenegro's economic and institutional infrastructure, including the Bar-Belgrade Motorway, which spans between Bar and Boljare in Montenegro, may require further investment and take years to fully complete, with only the first part expected to be completed by the end of 2021. See "*The Economy—Principal Sectors of the Economy—Construction—Bar-Boljare Motorway*" below. Projects such as this one have increased, or are expected to increase, Montenegro's debt to GDP ratio. See "*The Economy—Principal Sectors of the Economy—Construction*" below.

There can be no assurance that the economic and financial initiatives and the reforms described in this Prospectus will continue, will not be reversed or will achieve their intended aims in a timely manner or at all. Failure of the Government to implement its proposed economic, financial and other reforms and policies may negatively affect the Montenegrin economy and, as a result, have a material adverse effect on Montenegro's capacity to repay principal and make payments of interest on the Notes.

Montenegro depends on its tourism industry as a significant source of revenue and any deterioration in its tourism industry may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

In recent years, tourism has been, and is expected by the Government to continue to be, a very important sector of the economy. According to MONSTAT, Montenegro was visited by 2 million, 2.2 million and 2.6 million tourists in 2017, 2018 and 2019 respectively, showing strong growth year on year. Tourism declined dramatically in 2020 due to the effects of COVID-19. In the six months ended 30 June 2020, tourist arrivals and overnight stays in collective accommodation decreased by 77.7 per cent. and 83.3 per cent., respectively, compared to the same period in the previous year due to the COVID-19 pandemic and continued along a similar trend through the third quarter of 2020. Revenues from tourism declined by 87 per cent. in the nine months ended 30 September 2020 compared to the same period in 2019. See "*The Economy—Principal Sectors of the Economy—Tourism*".

COVID-19 will continue to adversely affect tourism flows compared to historic levels, and although they are expected to gradually recover, there is no certainty as at the date of this Prospectus when all restrictions on travel from various countries on which Montenegro relies for its tourism flows will be removed completely. The lifting of such restrictions will depend on both the course of the pandemic and on potential vaccine availability and effectiveness globally, both of which are difficult to predict. Even in the absence of the global pandemic, revenue generated by the tourism industry will continue to depend on various factors, including consumer spending power, which may be adversely affected by economic downturns, the public perception of the attractiveness and safety of a potential tourist destination and weather conditions. Public perception of Montenegro as a tourist destination could be affected by an increase in the number of refugees and economic migrants passing through or asylum-seekers staying in Montenegro, as a result of conflicts in Syria and elsewhere. Moreover, the expected growth in the tourism sector is also dependent on principal tourism projects, such as the construction of new hotels and resorts, and infrastructure being completed on time and on budget. In addition, the majority of tourists visiting Montenegro are from EU member states, Serbia or Russia. An economic slowdown in Serbia and Russia or any deterioration in diplomatic relations with countries in these regions could continue to adversely affect the Montenegrin tourism industry. Challenges to further development of the tourism sector include budget constraints, reliance on developers to complete projects, seasonality (the tourist season being concentrated in the summer months), the financial instability of Montenegro's national carrier, and insufficient transport links to and within the country. See "*The Economy—Principal Sectors of the Economy—Tourism*" for additional information.

A failure of tourism flows to recover to levels seen prior to the COVID-19 pandemic or other negative developments arising from any of the foregoing factors would adversely affect the tourism industry in

Montenegro, which, in turn, would adversely affect the Montenegrin economy and the ability of Montenegro to repay principal and make payments of interest on the Notes.

Political tensions may affect the implementation of Montenegro's proposed economic and other reforms and Montenegro's ability to repay principal and make payments of interest on the Notes

Montenegro's political environment in recent years has experienced significant change and, at times, periods of increased tension. For example, in October 2016, ahead of the parliamentary election, several individuals were arrested in connection with an attempted coup. Some of the arrested, along with other people, including two Russian citizens, were later charged by the authorities with an attempted coup. These arrests and subsequent charges led to the boycott of parliamentary sessions by opposition parties. In June 2017, 14 people were indicted, including two Russian citizens and two pro-Russia opposition leaders. The Higher Court in Podgorica as a first instance body, issued a sentence in May 2019 in which it found 13 individuals guilty of the attempted coup. Between February and April of 2019, there were weekly demonstrations and protests demanding the resignation of the nation's top government and judiciary officials. See "*Montenegro—Montenegro and regional relationships—Russia*" for a description of the 2016 events that led to the boycott of parliamentary sessions.

On 30 August 2020, the opposition parties forming three coalitions, For the Future of Montenegro, Peace is Our Nation and In Black and White won the parliamentary elections in Montenegro combining for 50.62 per cent. of the vote. This resulted in the fall from power of the Democratic Party of Socialists, which had ruled the country since the introduction of the multi-party system in 1990. The newly formed coalition Government came into power on 4 December 2020, with an agenda of economic reform and continued process of European integration. There can be no assurance, however, that the new Government will be successful in reaching its aims, or that political tensions or instability will not recur in the future or that the new Government will not pursue different policies and reverse the previous structural reforms. The extent to which Montenegro will be able to attract broad scale investment in the absence of the continuation of existing reforms is uncertain. Political tensions in Montenegro could also be impacted or exacerbated by the actions or statements of political actors outside Montenegro, including, for example, those of the EU in relation to Montenegro's accession process, those of NATO or its members, and those of other Balkan countries and Russia. Any future such political tensions and uncertainties may have a material adverse impact on Montenegro's financial initiatives and planned economic reforms.

Montenegro may not become a member of the EU in the near to medium term or at all, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

Montenegro is in the process of applying for full membership of the EU, which is a key strategic goal of the Government and which the Government believes will significantly benefit Montenegro's economic development. See "*Montenegro—International Relations—Montenegro's relationship with the international community—EU*". The 2020 Montenegro Report shows that, Montenegro has continued to make progress in fulfilling the economic criteria for membership in the EU, while alignment and preparation for the implementation of the *acquis communautaire* has taken place in most areas. As of 26 November 2020, of the 33 chapters required to be reviewed and closed as part of the EU accession process, Montenegro has opened and provisionally closed three negotiating chapters, with a further 30 chapters opened.

However, the timing of Montenegro attaining full membership of the EU remains uncertain and will depend on a number of economic and political factors relating to both Montenegro and the EU. On 6 February 2018, the EU adopted its EU-Western Balkans strategy, which set out certain indicative steps which Montenegro will need to complete in order to potentially be ready for membership by 2025. This EU strategy states that accession in 2025 will ultimately depend on strong political will, the delivery of real and sustained reforms, and definitive solutions to disputes with neighbours. Despite the EU's strategy and Montenegro's continuing efforts, there can be no assurance that Montenegro will become a full member of the EU within any given timescale or at all. In addition, Montenegro is in the process of harmonising its current and future laws with the respective EU standards, which may have short-term and/or long-term effects on the Montenegrin economy. If there are delays or other adverse developments in Montenegro's accession to the EU, or if Montenegro does not become a member of the EU, this may adversely impact its future economic development and, accordingly, may adversely affect Montenegro's ability to repay principal and make payments of interest on the Notes.

Montenegro's credit rating may deteriorate, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

In September 2018, Moody's rating for Montenegro's Government bonds was reaffirmed at B1, while the outlook on Montenegro's Government bond rating was upgraded to positive. In 2020, Moody's changed its outlook on Montenegro's Government bonds from positive to stable, reflecting the country's exposure to fiscal risks related to the Bar-Boljare Motorway project. In 2020, S&P reaffirmed Montenegro's B+/B rating, but revised outlook from stable to negative due to COVID-19 pandemic impacting the tourism sector of the country. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A credit rating is generally dependent on a number of factors, including public debt levels, past and projected future budget deficits and other considerations. See "*—If Montenegro's public debt continues to grow to finance its budget deficit, Montenegro may not be able to service its public debt and, as a result, may not be able to repay principal and make payments of interest on the Notes*" and "*—Montenegro may not be able to refinance its debt on favourable terms or at all*" below. Any adverse change in Montenegro's credit rating could adversely affect the trading price of the Notes.

Each of Moody's and S&P is established in the European Union and registered under the CRA Regulation.

A decrease in the lending activities of Montenegrin banks may have an adverse effect on the overall economy, in particular small and medium-sized enterprises operating in the service sector, and may have an adverse effect on Montenegro's ability to repay principal and make payments of interest on the Notes

Between the end of 2008 and the end of 2012, the number of outstanding loans in the Montenegrin banking sector gradually declined as banks restricted their lending activities by adopting more conservative policies in response to the global financial and economic crisis. This resulted in severe liquidity problems for many small businesses operating in the service sector of the Montenegrin economy, which have no alternative means of financing, and contributed to an increase in the overall level of tax arrears, particularly for the service sector.

Bank lending has shown continuous year-on-year growth more recently, including in 2020 (largely due to the implementation of COVID-19-related measures by the Central Bank). However, with total outstanding loans amounting to €3,101.0 million as at 30 June 2020, which was 27 per cent. higher than at the end of 2016, when total outstanding loans amounted to €2,440.1 million, lending activities by banks and other financial institutions in Montenegro have not and may not return to pre-2008 levels, which could have an adverse effect on growth prospects for the Montenegrin economy, particularly the small and medium-sized enterprises operating in the service sector. This may adversely impact Montenegro's future economic development and GDP growth and may thus adversely affect Montenegro's ability to repay principal and make payments of interest on the Notes.

Montenegro suffers from high levels of unemployment which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

Despite certain improvements in the labour market, unemployment in Montenegro remains high. In 2019, the unemployment rate in Montenegro was 15.1 per cent. (the lowest level since 2006), compared to 17.6 per cent. in 2015. The positive trends in unemployment reversed in 2020 due to the effects of COVID-19 pandemic.

According to the Labour Force Survey, the average unemployment rate for the six months ended 30 June 2020 was 15.8 per cent., a 1.1 per cent. increase compared to the six months ended 30 June 2019. The labour market continues to suffer from a high rate of inactive labour, long-term unemployment, a structural mismatch between demand and supply and high rate of unemployment, particularly among the young. See "*The Economy—Employment*".

Although the Government is planning on continuing the process of implementing reforms to reduce the unemployment rate, together with other reforms relating to the education and labour markets, if high levels of unemployment are not addressed, they could become a source of political and social instability in Montenegro and may lead to a negative effect on the Montenegrin economy in general and the ability of Montenegro to repay principal and interest on the Notes.

Official economic data may not be accurate and could be revised which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

A range of ministries and institutions, including MONSTAT, produce statistics relating to Montenegro and its economy. However, these statistics may be more limited in scope, less accurate, reliable and/or consistent in terms of basis of compilation between various ministries and institutions and published less frequently than is the case for the comparable statistics for other countries, particularly existing members of the EU. Consequently, prospective investors in the Notes should be aware that figures relating to Montenegro's GDP and many other figures cited in this Prospectus may be subject to some degree of uncertainty and may not be prepared in accordance with international standards. Furthermore, the foregoing limitations of statistical information make adequate monitoring of key fiscal and economic indicators more difficult than for many other countries.

Furthermore, standards of accuracy of statistical data may vary from ministry to ministry or from period to period due to the application of different methodologies. In this Prospectus, data is presented as provided by the relevant ministry or by other organisations, such as the Central Bank, to which the data is attributed, and no attempt has been made to reconcile such data to the data compiled by other ministries or by other organisations, such as the IMF or World Bank. In addition, statistical data appearing in this Prospectus has, unless otherwise stated, been obtained from public sources and documents. Similar statistics may be obtainable from other sources, but the underlying assumptions, methodology and, consequently, the resulting data may vary from source to source. The existence of a substantial unofficial or unobserved economy in Montenegro, the size of which appears to be unknown or estimated by the Government, may also affect the accuracy and reliability of statistical information. Furthermore, there may be significant unrecorded transactions in the economy. See "*Balance of Payments and Foreign Trade—Errors and Omissions*" for more information.

The statistical information presented in this Prospectus is based on the latest official information currently available from the relevant stated sources. The development of statistical information relating to Montenegro is, however, an ongoing process, and revised figures and estimates are produced on a continuous basis. For instance, GDP figures for the first half of 2020 are based on preliminary data. Montenegro's Statistical Office publishes official information for each year in September of that following year. Prospective investors should be aware that none of the statistical information in this Prospectus has been independently verified.

The Prospectus includes projected GDP and other data, which may not be realised

The Prospectus includes certain estimates, forecasts and projections, including GDP data and government debt for the years ending 31 December 2020 through 2023. These projections are forward-looking statements and investors are cautioned from placing undue reliance on any figures related to these periods. See "Forward Looking Statements". Any projected level of change in GDP is subject to a significant level of uncertainty, including but not limited to the ongoing uncertainty related to the impact of COVID-19 pandemic as well as other risk factors set out in this section, and, as a result may not materialise, or be worse than currently expected.

Government budgets for future periods also remain subject to change. In addition, investors are cautioned that the estimated information as to GDP for the full year 2020 is based on the latest available indicators as at 30 June 2020. The balance of payments data (which, for the nine months ended 30 September 2020 indicate a decline in revenue from tourism by up to €88 million more than the expected decline used by the Government in estimating full year 2020 GDP) indicates a potentially greater decline in GDP for the full year 2020 than the projections included herein. A worse-than-expected level of GDP and government receipts, or a higher-than-expected level of indebtedness could adversely affect Montenegro's ability to repay principal and make payments of interests on the Notes.

Corruption, money laundering and organised crime issues may hinder the growth of the Montenegrin economy, delay or foreclose EU accession and otherwise have a material adverse effect on Montenegro and its ability to repay principal and make payments of interest on the Notes

Independent analysts have identified corruption, money laundering and organised crime as problems in Montenegro. In the 2019 Transparency International Corruption Perceptions Index, Montenegro ranked 66 out of 180 countries and territories under review.

In the past, there have been arrests and convictions of former Government officials, and municipal officials, in connection with the abuse of their power while in office. The establishment of the special prosecution office for organised crime and corruption led to arrests in 2015. These or other allegations or evidence of corruption, money laundering or organised crime involving the Government and/or members or former members thereof, irrespective of whether such allegations prove to be true, may create tensions between political parties, including parties within the governing coalition, otherwise destabilise the governing coalition and/or lead to early elections. Corruption, diversion or misuse of public resources or assets, money laundering or organised crime in Montenegro, or allegations thereof, and/or the resulting negative publicity may have a negative impact on Montenegro's economy and its reputation abroad, especially on its ability to attract foreign investment, and could slow down progress towards EU membership. See "*The Economy—Background*" for more information.

The factors described above may lead to negative effects on political or economic conditions in Montenegro which may, in turn, adversely affect the ability of Montenegro to fund payments on its debt obligations, including the Notes.

Risks Associated with Montenegro's Debt

If Montenegro's public debt continues to grow to finance its budget deficit, Montenegro may not be able to service its public debt and, as a result, may not be able to repay principal and make payments of interest on the Notes

As a result of a decline in revenues and increased spending, the general government budget deficit for 2020 is expected to amount to 10.6 per cent. of GDP, while the country's general government debt to GDP ratio is expected to increase to 88.6 per cent. of GDP from 76.54 per cent. of GDP at the end of 2019. Investors are cautioned that the estimated information as to GDP for the full year 2020 is based on the latest available indicators as at 30 June 2020. The projection for the general Government debt at end of 2020 does not include the proposed offering of the Notes. The balance of payments data for the nine months ended 30 September 2020 indicates a potentially greater decline in GDP for the full year 2020 than the foregoing estimates. Although the Government expects the fiscal balance to improve in 2021, the significant increase in the Government borrowings to combat the adverse economic effects of the COVID-19 pandemic in 2020 and any extension of these measures in 2021 (including, for example, one-off financial assistance to the country's national air carrier) could have longer term adverse economic effects on Montenegro, including by increasing its debt service obligations, as well as by increasing its vulnerability to external funding conditions within the Eurozone and result in compounding the future possibility of debt distress.

In addition, the Government has undertaken a number of major infrastructure projects that are either underway or expected to be carried out over the near to medium term and are expected to create upward pressure on Government expenditure. For example, the costs of the construction of the Montenegrin section of the Bar-Belgrade Motorway may be higher than expected or delays in construction or in finding suitable private partners could result in the incurrence of further costs. Borrowings from external creditors to complete the motorway has continued to increase the Government's public debt, and will likely continue to do so until construction is completed. See "*The Economy—Principal Sectors of the Economy—Construction—Bar-Boljare Motorway*" and "*Public Indebtedness—Overview—Public Debt*" for more information. The issuance of Notes will further increase the debt to GDP ratio in 2020. Further, after joining the North Atlantic Treaty Organisation ("**NATO**"), Montenegro is required to commit 2 per cent. of its GDP output on defence by 2024, which could create additional pressure on Montenegro's budget. See "*Montenegro—International Relations—Montenegro's relationship with the international community—North Atlantic Treaty Organisation*".

If the Government is unable to reduce the dependence of state-owned enterprises on public finances and to foster greater economic efficiency through broader private sector participation, revenue raising measures could prove inadequate to cover the continued increases in public debt and interest payments. Furthermore, certain revenue streams earmarked for the repayment of public debt may be less than projected and could become insufficient to service debt and interest payments. As a result, the primary deficit may not improve and debt servicing in turn may grow more demanding. In addition, Government payment capacity may become further affected by a delayed recovery of key economic sectors, such as tourism, from the effects of the COVID-19 pandemic. Actual economic growth in 2021 may be lower than Government projections and assumptions used for the 2021 budget. Continued lower growth than expected may have an adverse impact on budget revenue and other negative implications, such as increasing the share of expenditure to GDP (with an unchanged level of expenditure), thereby causing the Government to fail to reduce the expenditure-to-GDP ratio. In a lower growth environment, additional expenditure reduction measures may be required which in turn may impact Montenegro's ability to use available funds to make other capital investments needed for economic growth. This would add pressure to the existing fiscal consolidation plan.

Lower revenues, together with significant expenses related to economic measures undertaken to reduce the adverse effects of COVID-19 pandemic, expenses related to public wages, social benefits (including pensions and healthcare), infrastructure projects and interest payments may adversely affect Montenegro's ability to repay the principal and make payments of interest on the Notes.

Montenegro's debt level may be affected by currency fluctuations

Montenegro's second largest source of external debt, the U.S.$944.0 million loan from Chinese EXIM Bank, is denominated in U.S. Dollars, and the Government has not hedged this exposure. An increase in the value of the U.S. Dollar against the euro, Montenegro's official currency, would result in an effective increase in the amount of principal and interest to be repaid under the loan.

Montenegro may not be able to refinance its debt on favourable terms or at all

Montenegro has substantial amounts of domestic and external state debt. As at 30 September 2020, domestic debt accounted for €0.57 billion or 12.4 per cent. of GDP and external debt accounted for €3.1 billion (or 67.7 per cent. of GDP). Debt repayments (including principal, interest and liabilities from previous period) in the amount of €614.3 million were made in 2019. Montenegro's total debt to GDP for 2020 is expected to reach 88.6 per cent. of GDP (excluding the Notes offered hereby), and this exceeds the 60 per cent. debt to GDP ceiling contained in the Law on Budget and Fiscal Responsibility, requiring the Government to adopt a programme for debt reduction. See "*Indebtedness*" for additional information.

The following table sets out the repayment of debts for the years ended 31 December 2019, and the expected repayment of debts for the years ended 31 December 2020 and 2021:

	Year ended 31 December		
	2019	2020 Expected	2021 Expected
		(€ millions)	
Principal	508.7	539.6	385.5
Interest	105.6	104.4	96.7
Debt repayment	614.3	644.0	482.2

Any deterioration in continued support from multilateral creditors, such as the World Bank, or financing conditions as a result of market, economic or political factors, which may be outside Montenegro's control, may jeopardise Montenegro's ability to repay and/or refinance its existing debt and to repay principal and make payments of interest on the Notes, and thereby adversely affect Montenegro's ability to implement its economic strategy and reforms. In addition, any increases in Montenegro's public debt, as a result of incurring budget deficits or otherwise, would further exacerbate this risk. The Government's debt to GDP ratio has continued to deteriorate in 2020 as a result of the GDP decline and increased borrowings driven by the COVID-19 pandemic. See "*—If Montenegro's public debt continues to grow to finance its budget deficit, Montenegro may not be able to service its public debt and, as a result, may not be able to repay principal and make payments of interest on the Notes*" above.

Potential liabilities from litigation could increase Montenegro's public debt and could adversely affect Montenegro's ability to repay principal and make payments of interest on the Notes

The Government is currently involved in a dispute regarding the Kombinat Aluminijurna Podgorica ("**KAP**") where the plaintiff is alleging breach of a bilateral agreement on stimulation and mutual protection of investment concluded between the Federal Republic of Yugoslavia and the Russian Federation (the "**Russian BIT**"). See "*The Economy—Principal Sectors of the Economy—Industrial production—Metals manufacturing—KAP—KAP arbitration proceedings*" for additional information.

On 15 October 2019, the arbitral tribunal decided: (i) that Russian BIT was not applicable to Montenegro; (ii) to accept the jurisdictional objection raised by Montenegro on that basis; (iii) to reject jurisdiction to decide on the claims; and (iv) to award all costs in favour of Montenegro in the total amount of over €1.6 million. On 15 January 2020, pursuant to Section 36 of the Swedish Arbitration Act (as the seat of the arbitration was in Stockholm), the claimant, Mr. Deripaska, submitted a motion to the Swedish Court of Appeal, requesting that the arbitral award be set aside. Mr. Deripaska supplemented this motion on 15 May 2020. The legal representatives of Montenegro are preparing a response to these motions. If the outcome of the appeal is unfavourable to Montenegro and the Government is required to make payments under plaintiff's claims, this would result in an increase in Government expenditure and an increase in the budget deficit, which could have an adverse effect on the ability of Montenegro to repay principal and make payments of interest on the Notes.

Risks Associated with Montenegro's Banking Sector

Asset quality deterioration could cause Montenegrin banks to be not in compliance with regulatory requirements, including capital adequacy requirements, and/or to reduce their lending activities, which could have an adverse effect on growth prospects for the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

The outbreak of COVID-19 has negatively impacted the economic activity in Montenegro, and consequently, the financial position and profitability of Montenegro's banks. Although, the banking system in Montenegro has, to date, remained stable, highly liquid and well capitalised, asset quality indicators of the banking system, while showing substantial improvement compared to 2016, deteriorated in the first half of 2020 compared to the year-end of 2019. For example, the ratio of non-performing loans ("**NPLs**") to total loans has increased to 5.26 per cent. as of 30 June 2020, from 4.72 per cent. as of 31 December 2019. In addition, the measures taken by the Central Bank to preserve the stability of the banking and financial system since the onset of the COVID-19 pandemic included mandatory moratoria on loan repayments, allowances for restructurings of loans by the banks, suspension of certain limitations on lending exposures and other measures. There can be no assurance, however, that these measures will prove to be sufficient to maintain the stability of the banking system should the underlying economic conditions deteriorate further or that the banks will not be exposed to more credit risk than it finds acceptable. Similarly, while non-resident deposits (which accounted for 22.66 per cent. of total deposits in the banking system as at 30 June 2020) have stayed broadly stable through the COVID-19 crisis, they could become a source of risk if the crisis is more protracted than envisaged.

Any future increases in NPLs or reduction in non-resident deposits or changes in other factors the affecting asset quality, liquidity or capital adequacy of the banking system of Montenegro could result in a significant contraction of lending, which could adversely affect economic growth in Montenegro, and its ability to repay principal and make payments of interest on the Notes.

On 7 December 2018, the Central Bank of Montenegro, in accordance with the mandatory provisions of the Law on Banks, and on the basis of the findings of examinations, introduced temporary administrations in Atlas Bank and Invest Bank Montenegro. The interim administrations were introduced to consider the possibility of negotiating the further operations of these banks. In accordance with the Banking Law, the Interim administrators submitted financial statements of the banks to the Central Bank within 30 working days of the introduction of the interim administrations.

In relation to the content of the financial statements and proposals for resolving the situation in Invest Bank of Montenegro AD Podgorica, the Council of the Central Bank of Montenegro Council, by applying the mandatory provisions of the Banking Law has revoked the license of Invest Banka Montenegro AD Podgorica, and at the same day, in observance of legal provisions of the Banking Law adopted the Decision on commencing the bankruptcy proceedings in the Bank.

In connection with the above, pursuant to Law on Banks, the Interim Administrator of Atlas Bank also submitted the report, plan of activities of the Interim administrator of the Bank with a proposal for resolving the situation in the Bank. Namely, after the determined amount of losses and the prepared balance sheet of the Bank, the amount of required additional share capital was determined in the amount of €22 million, up to the amount providing the required level of own funds. After four months, at the end of March 2019, with the unsuccessful two issues of shares, non-functioning of e-commerce services and significant impairment of assets after being reduced to fair value, the Bank's financial position was such that its liabilities higher than its assets, that its own funds are negative, the solvency ratio was negative which according to the Law on Banks imposes imperative provisions for the revocation of a license. With regard on that at 5 April 2019, the Council of the Central Bank of Montenegro adopted the Decision on revoking the licence of Atlas Banka AD Podgorica and the Decision on commencing the bankruptcy proceedings in the Bank. So, taking into account the all relevant data, CBCG resolved the situation in two non-systemic banks in an efficient manner, without the effects on the banking system, with a full preservation of financial stability.

The high level of foreign ownership in the Montenegrin banking system makes it vulnerable to disruption as a result of internal or external factors, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

As at 30 June 2020, foreign banks accounted for approximately 69.69 per cent. of total assets, 69.41 per cent. of total loans and 69.44 per cent. of total deposits in the Montenegrin banking system.

Foreign banks may rebalance their global loan portfolios in a manner adversely affecting Montenegro as a result of events related or unrelated to Montenegro, including as a result of economic turbulence in the Eurozone and/or sovereign debt markets. In addition, foreign banks may decrease funding (both at capital levels and intercompany loans) to their subsidiaries operating in Montenegro due to actual or perceived deterioration in asset quality, particularly an increase in NPLs, or in the event of a weaker than expected economic performance. As a result of these or other factors, or other potential shocks, foreign banks may revise their business strategies in, or relating to, Montenegro and in particular their decision to continue to provide existing levels of funding to their subsidiaries in Montenegro. Any resulting funding and as a result lending decreases may adversely affect the Montenegrin economy and, as a result, have an adverse effect on Montenegro's capacity to repay principal and make payments of interest on the Notes.

As a result of the adoption of the euro as the Montenegrin currency, the Central Bank's ability to regulate monetary policy and provide liquidity to the Montenegrin banking system is limited, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

Montenegro adopted the euro as legal tender in 2002. The absence of a national currency imposes certain constraints on Montenegro's ability to regulate monetary and fiscal policies (including in response to external shocks) that are not present in countries that have national currencies, including the ability to set interest rates and provide liquidity to the banking system. For instance, the use of the euro as legal tender made it impossible for the Government to use most quantitative instruments of monetary policy during the economic crises, including during the ongoing COVID-19 pandemic, as well as the financial and economic crisis in 2008 and 2009, as the country is unable to set monetary policy and provide liquidity to the banking system by adjusting interest rates and money supply, leaving the mandatory reserve rate as the only means to regulate, to a certain extent, the money supply. In addition, as a result of the adoption of the euro as the Montenegrin currency, the country's economy is and will continue to be directly affected by the monetary policy of the European Central Bank ("**ECB**"), including its interest rate policy. The foregoing limitations on the Government's ability to regulate its monetary and fiscal policies in response to external events or otherwise may have a material adverse effect on Montenegro's capacity to repay principal and make payments of interest on the Notes.

The Central Bank is not a member of the European System of Central Banks or the European Central Bank and, as a result, does not benefit from any support programmes provided by these institutions to EU member states or to financial institutions located in EU member states, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

Despite the fact that Montenegro's official currency is the euro, Montenegro is not a member of the EU or the Eurosystem. Unlike central banks of most other countries whose official currency is the euro, the Central Bank is not a member of the European System of Central Banks or the ECB. As a result, the Central Bank has no involvement in ECB policy, and neither Montenegro nor the Central Bank will benefit from any support programmes provided by these institutions to EU member states or financial institutions located in EU member states. This could adversely affect the Montenegrin economy relative to economies of other Eurozone countries which receive such support, particularly in circumstances where such support is provided due to adverse global macroeconomic events or a deteriorating global economic environment. If such adverse effects occur, or if for any reason the Issuer does not have sufficient euro reserves or access to euro funding, the Issuer's capacity to pay principal and/or interest on the Notes would be adversely affected.

Risks Associated with Montenegro's Legal System

Montenegro's legal system is not fully developed and presents greater risks and uncertainties than a more developed legal system, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

Montenegro has taken, and continues to take, steps aimed at developing a more mature legal system which is comparable to the legal systems of EU countries. New laws have been introduced and revisions have been made with respect to, amongst others, company, property, securities, labour and taxation laws in order to harmonise them with EU laws. However, Montenegro's legal system remains in transition and is therefore subject to greater risks and uncertainties than a more mature legal system. In particular, risks associated with the Montenegrin legal system include: (i) potential inconsistencies between and among the Constitution and various laws, governmental, ministerial and local orders, decisions, resolutions and other acts; (ii) provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted; (iii) difficulty in predicting the outcome of judicial application of Montenegrin legislation; and (iv) the fact that not all Montenegrin resolutions, orders and decrees and other similar acts are readily available to, or easily accessible by, the public or available in an understandable, organised form. Furthermore, new laws and revisions remain untested in courts and do not have a long history of interpretation. In some circumstances, therefore, it may not be possible to obtain swift enforcement of a judgment in Montenegro or predict the outcome of legal proceedings subject to these new laws. Additionally, the Montenegrin Courts are experiencing back-logs which can cause delays to proceedings. These and other factors that may impact Montenegro's legal system make an investment in the Notes subject to greater risks and uncertainties than an investment in a country with a more mature legal system.

The uncertainties relating to the Montenegrin judicial system could have an adverse effect on its economy and thus on the ability of Montenegro to repay principal and make payments of interest on the Notes

The independence of the judicial system and its immunity from economic and political interference in Montenegro remain in doubt. The application and interpretation of the Constitution remain complicated and, accordingly, it is difficult to ensure smooth and effective resolution of discrepancies between the Constitution and applicable Montenegrin legislation on the one hand and among various laws of Montenegro on the other hand.

The court system is underfunded as compared to more mature jurisdictions. As Montenegro is a civil law jurisdiction, judicial decisions under Montenegrin law generally have no precedential effect and the courts are generally not bound by earlier court decisions taken under the same or similar circumstances. This may result in an inconsistent application of Montenegrin legislation to resolve the same or similar disputes. Because legislation in a number of areas was adopted following independence and is still fairly recent, relevant judicial decisions may not be publicly available and, therefore, the role of judicial decisions as guidelines in interpreting applicable Montenegrin legislation to the public at large may be generally limited.

As a result of the foregoing, judicial decisions in Montenegro remain difficult to predict. In addition, court orders are not always enforced or followed by law enforcement institutions. The uncertainties of the Montenegrin judicial system could have an adverse effect on the economy and thus on the ability of Montenegro to repay principal and make payments of interest on the Notes.

A claimant may not be able to enforce a court judgment or arbitral award against certain assets of Montenegro in certain jurisdictions

It may not be possible to effect service of process against Montenegro in courts outside Montenegro or in a jurisdiction to which Montenegro has not explicitly submitted. In addition, the choice of jurisdiction of a foreign court (including English courts) in contractual agreements may be held to be invalid by a Montenegrin court in certain circumstances. Such circumstances may include Montenegrin courts finding that such contractual arrangements are contrary to public policy or the Government passing specific legislation stipulating that certain disputes may not be resolved by arbitration. There have been isolated instances in recent court practice in Montenegro adopting a position that jurisdiction of an arbitration seated abroad (referred to as international arbitration in the decisions) may be agreed only in cases where at least one of the parties is a natural person with domicile or habitual residence in a state other than Montenegro or a legal person established under a foreign law whose seat is abroad. It remains to be seen if court practice in general will support such a position and further develop on that basis. However, where the noteholders are domestic persons (i.e. natural persons with domicile and habitual residence in Montenegro or legal persons established and seated in Montenegro) ("**Domestic Noteholders**"), such Domestic Noteholders would possibly not have the option to refer any Dispute (as defined in "*Terms and Conditions of the Notes—20. Governing Law; Jurisdiction and Arbitration*") to arbitration in accordance with the "*Terms and Conditions of the Notes—20. Governing Law; Jurisdiction and Arbitration – (b) Arbitration*". The Domestic Noteholders would therefore possibly only have the option of referring the Dispute to be heard by the courts of England in accordance with "*Terms and Conditions of the Notes—20. Governing Law; Jurisdiction and Arbitration – (d) Noteholders' Option*". It may not be possible to enforce foreign court judgments in the courts of Montenegro, including English court judgments, against Montenegro that are predicated upon the laws of foreign jurisdictions without a re-examination of the merits of such judgments in the Montenegrin courts, although a re-examination of the merits of a judgment will generally not be conducted according to the applicable law. There is also a risk that the choice of English law as the governing law of the Notes might not be applied by the courts of Montenegro.

Montenegro is a sovereign state and there is a risk that, notwithstanding the limited waiver of sovereign immunity by Montenegro pursuant to the Conditions of the Notes, a claimant will not be able to enforce a court judgment against certain assets of Montenegro (including the imposition of any arrest order or attachment or seizure of such assets and their subsequent sale) in certain jurisdictions (including Montenegro) without Montenegro having specifically consented to such enforcement at the time when the enforcement is sought. See "*Terms and Conditions of the Notes—20. Governing Law; Jurisdiction and Arbitration*". In addition, certain state-owned assets are statutorily exempt from court enforcement procedures within Montenegro. Specifically, Montenegro has not waived any immunity in respect of present or future: (i) "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961; (ii) "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963; (iii) military property or military assets of Montenegro relating to any of the assets referred to in the foregoing sub-paragraphs (i) and (ii); (iv) property, weapons, equipment and funds serving the purpose of state security and defence; (v) assets that are non-tradable (*res extra commercium*), natural resources and goods in general use; and (vi) receivables of Montenegro on the basis of taxes, contributions and customs.

Risk Factors Relating to the Notes

The Issuer may choose to grant preferential treatment to other unsecured creditors

In accordance with Condition 4 (*Status*), the Notes will at all times rank at least *pari passu* with all other unsecured obligations of the Issuer. However, Condition 4 (*Status*) does not require the Issuer to effect equal or rateable payment(s) at any time with respect to any other unsecured obligations of the Issuer and, in particular, the Issuer will have no obligation to make payments under the Notes at the same time or as a condition of paying sums due under other unsecured obligations of the Issuer. Accordingly, the Issuer may choose to grant preferential treatment to, and therefore prioritise payment obligations to, other unsecured creditors of the Issuer as payments fall due.

The Notes contain a "collective action" clause under which the terms of the Notes may be amended, modified or waived without the consent of all of the Noteholders

The Conditions contain provisions regarding amendments, modifications and waivers, commonly referred to as "collective action" clauses. Such clauses permit defined majorities to bind all Noteholders, including Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority.

The Issuer has issued and may issue further debt securities which contain collective action clauses in the same form as the collective action clauses in the Conditions. This means that the Notes are capable of aggregation with any such existing debt securities and any debt securities issued in the future containing such collective action clauses, and that a defined majority of the holders of such debt securities (when taken in the aggregate) would be able to bind all holders of debt securities in all the relevant aggregated series, including the Notes.

Any modification or actions relating to Reserved Matters (as defined in the Conditions), including in respect of payments and other important terms, may be made to the Notes with the consent of the holders of 75 per cent. of the aggregate principal amount outstanding of the Notes, and to multiple series of debt securities which may be issued by the Issuer with the consent of both (i) the holders of 66⅔ per cent. of the aggregate principal amount outstanding of all debt securities being aggregated and (ii) the holders of 50 per cent. in aggregate principal amount outstanding of each series of debt securities being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable condition (as more particularly described in the Conditions), any such modification or action relating to Reserved Matters may be made to multiple debt securities with the consent of only 75 per cent. of the aggregate principal amount outstanding of all debt securities being aggregated, without requiring a particular percentage of the holders in any individual affected debt securities to vote in favour of any proposed modification or action. Any modification or action proposed by the Issuer may, at the option of the Issuer, be made in respect of some debt securities only and, for the avoidance of doubt, the provisions may be used for different groups of two or more debt securities simultaneously. At the time of any proposed modification or action, the Issuer will be obliged, *inter alia*, to specify which method or methods of aggregation will be used by the Issuer.

There is a risk, therefore, that the Conditions of the Notes may be amended, modified or waived in circumstances whereby the holders of debt securities voting in favour of an amendment, modification or waiver may be holders of different debt securities. In addition, there is a risk that the provisions allowing for aggregation across multiple debt securities may make the Notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default or in a distress situation. Further, any such amendment, modification or waiver in relation to the Notes may adversely affect their trading price.

An active trading market for the Notes may not develop and any trading market that does develop may be volatile

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes.

Investors may face foreign exchange risks by investing in the Notes

The Issuer will pay principal and interest on the Notes in euros. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euros. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to euros would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The Notes are subject to optional redemption by the Issuer

Pursuant to Condition 9(b) the Issuer can redeem all, but not some, of the Notes in the period from, and including, the date falling 3 months prior to the Maturity Date to, but excluding, the Maturity Date. Such optional redemption feature is likely to limit the market value of Notes in that period. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Issuer on an issue of the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

Notes where denominations involve integral multiples: definitive Notes

The Notes have denominations consisting of a minimum denomination of €100,000 plus one or more higher integral multiples of €1,000, and it is possible that Notes may be traded in amounts that are not integral multiples of €100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than €100,000 in his account with the relevant clearing system at the relevant time may not receive a definitive certificate in respect of such holding (should certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to at least €100,000.

Change of law

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurances can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of any investments affected by it.

EXCHANGE RATE HISTORY

Montenegro adopted the euro as legal tender in 2002.

For ease of presentation, certain economic and financial information included herein has been translated into U.S. Dollars.

The following table sets out, for the periods outlined below, the low, high, average and period end Bloomberg Composite Rate expressed as U.S. Dollars per €1.00. The Bloomberg Composite Rate is a "best market" calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. The average rate for a year means the average of the Bloomberg Composite Rates on the last day of each month during a year. The average rate for a month, or for any shorter period, means the average of the daily Bloomberg Composite Rates during that month, or shorter period, as the case may be.

	U.S. Dollars to euro			
	Low	**High**	**Average**	**Period End**
2015	1.0492	1.2002	1.1096	1.0866
2016	1.0388	1.1534	1.1069	1.0517
2017	1.0405	1.2036	1.1297	1.2005
2018	1.1245	1.2493	1.1811	1.1452
2019	1.0899	1.1543	1.1193	1.1213
2020 (through 27 November)	1.0688	1.1936	1.1344	1.1925

The rates in the above table may differ from the actual rates used in the preparation of the information appearing in this Prospectus. The inclusion of these exchange rates is not meant to suggest that any amount of the currencies specified above has been, or could be, converted into the applicable currency at the rates indicated or at any other rate.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the text in italics, will be endorsed on each Definitive Note Certificate (if issued):

The EUR 750,000,000 2.875 per cent. Notes due 2027 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 18 (*Further Issues*) and forming a single series therewith) of the State of Montenegro (represented by the Government of Montenegro, acting by and through its Ministry of Finance) (the "**Issuer**") will be the subject of a fiscal agency agreement dated 16 December 2020 (as amended or supplemented from time to time, the "**Fiscal Agency Agreement**") between the Issuer, Citibank, N.A., London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), as paying agent (the "**Paying Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and as transfer agent (the "**Transfer Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes and, together with the Fiscal Agent and the Paying Agent, the "**Agents**") and Citigroup Global Markets Europe AG in its capacity as registrar (the "**Registrar**", which expression shall be deemed to include any successor registrar appointed from time to time in connection with the Notes).

Certain provisions of these Conditions are summaries of the Fiscal Agency Agreement and are subject to its detailed provisions. The Noteholders are bound by, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement applicable to them. Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Fiscal Agency Agreement) of the Agents. References to "**Conditions**" are, unless the context otherwise requires, to the numbered paragraphs of these terms and conditions.

1 Form, Denomination and Title

(a) Form and denomination

The Notes are in registered form, serially numbered.

The Notes will be issued in minimum denominations of EUR 100,000 or any amount in excess thereof which is an integral multiple of EUR 1,000 (each an "**Authorised Holding**").

(b) Title

Title to the Notes will pass by transfer and registration as described in Conditions 2 (*Registration*) and 3 (*Transfer of Notes*). The holder (as defined below) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing thereon by any person (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof; and no person will be liable for so treating the holder.

In these Conditions, "**Noteholder**" or "**holder**" means the person in whose name a Note is for the time being registered in the Register (as defined below) (or, in the case of joint holders, the first named thereof) and "**holders**" shall be construed accordingly. A note in definitive form (a "**Definitive Note Certificate**") will be issued to each Noteholder in respect of its registered holding.

Notes sold to QIBs in the United States in reliance on Rule 144A under the Securities Act will be represented by a Rule 144A Global Note. Notes sold to investors outside the United States in reliance on Regulation S under the Securities Act will be represented by the Regulation S Global Note. Interests in the Regulation S Global Note and the Rule 144A Global Note will be exchangeable for Definitive Note

*Certificates in the limited circumstances specified in the Regulation S Global Note and the Rule 144A Global Note, respectively. The Global Notes will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**").*

Ownership of beneficial interests in the Global Notes will be limited to persons that have accounts with Euroclear or Clearstream, Luxembourg or persons that may hold interests through such participants. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected through, records maintained in book entry form by Euroclear, Clearstream, Luxembourg and their participants, as applicable.

(c) Third party rights

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

2 Registration

The Issuer will cause a register (the "**Register**") to be kept at the Specified Office of the Registrar outside the United Kingdom in which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and all transfers and redemptions of the Notes.

3 Transfer of Notes

(a) Transfer

Each Note may, subject to the terms of the Fiscal Agency Agreement and to Conditions 3(b) (*Formalities Free of Charge*), 3(c) (*Closed Periods*) and 3(e) (*Regulations Concerning Transfer and Registration*), be transferred in whole or in part in an Authorised Holding by lodging the relevant Definitive Note Certificate (with the endorsed form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the Specified Office of the Registrar or any Paying Agent and Transfer Agent. A Note may be registered only in the name of, and transferred only to, a named person or persons. No transfer of a Note will be valid unless and until entered on the Register.

The Registrar will, within five Business Days (as defined below) of any duly made application for the transfer of a Note, register the transfer and deliver a new Definitive Note Certificate to the transferee (and, in the case of a transfer of part only of a Note, deliver a Definitive Note Certificate for the untransferred balance to the transferor), at the Specified Office of the Registrar, or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Definitive Note Certificate by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

(b) Formalities Free of Charge

Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar.

(c) Closed Periods

Neither the Issuer nor the Registrar will be required to register the transfer of any Note (or part thereof) during the period of 15 days immediately prior to the due date for any payment of principal or interest in respect of the Notes.

(d) Business Day

In this Condition, "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the city in which the Specified Office of the Registrar or, as the case may be, the Fiscal Agent is located.

(e) Regulations Concerning Transfer and Registration

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes in Schedule 1 to the Fiscal Agency Agreement. The regulations may be changed by the Issuer with the approval of the Registrar.

(f) Authorised Holdings

No Note may be transferred unless each of the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of the Notes not transferred is an Authorised Holding.

4 Status

The Notes constitute direct, general, unconditional and (subject to Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer and the full faith and credit of the Issuer is pledged for the due and punctual payment of principal and interest on the Notes and for the performance of all obligations of the Issuer in respect of the Notes. The Notes will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer. This Condition 4 (*Status*) does not require the Issuer to effect equal or rateable payment(s) at any time with respect to any such other unsecured obligations of the Issuer and, in particular, the Issuer shall have no obligation to pay other unsecured obligations at the same time or as a condition of paying sums due under the Notes and vice versa.

5 Negative Pledge

So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement) the Issuer shall not create or permit to subsist any Security Interest other than a Permitted Security Interest upon the whole or any part of its present or future undertaking, assets or revenues to secure any of its Public Indebtedness or any Guarantee of any Public Indebtedness of any other person unless the Issuer shall, in the case of the creation of any Security Interest, at the same time or prior thereto, and in any other case, promptly, procure that all amounts payable in respect of the Notes are secured equally and rateably therewith or provide such other security or other arrangement for the Notes as may be approved by a resolution of the requisite majority of Noteholders or written resolution of Noteholders, in each case in accordance with Condition 14 (*Meetings of Noteholders; Written Resolutions*).

6 Definitions

(a) For the purposes of these Conditions:

"**Guarantee**" means, in relation to any indebtedness, any guarantee or indemnity given by the Issuer in respect of such indebtedness;

"**Permitted Security Interest**" means any Security Interest created as contemplated by the terms of the facility agreement dated 11 April 2017 between the Issuer and Credit Suisse AG, London Branch, the account pledge agreement dated 11 April 2017 between the Issuer and Credit Suisse AG, London Branch and the conversion letter dated 30 July 2009 between the Issuer and Credit Suisse, London Branch and the renewal or extension of any such Security Interest **provided that** (x) the principal amount of the Public Indebtedness secured thereby is not increased, (y) such renewal or extension shall be no more restrictive than the original Security Interest, and (z) the Security Interest has not been or is not extended to any additional assets;

"**Public Indebtedness**" means any indebtedness which (a) is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument, (b) is, or was intended by the issuer thereof to be at the time such indebtedness was issued, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any automated trading system or over-the-counter market) and (c) has a maturity date falling more than one year after its issue date; and

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything having an equivalent effect to any of the foregoing under the laws of any jurisdiction.

(b) Capitalised terms used in Condition 20 (*Governing Law; Jurisdiction and Arbitration*) but not otherwise defined in these Conditions shall have the meanings given to them in the Rules.

7 Interest

(a) Interest Accrual

Each Note bears interest from 16 December 2020 (the "**Issue Date**") at the rate of 2.875 per cent. per annum (the "**Rate of Interest**") payable annually in arrear on 16 December of each year commencing on 16 December 2021 (each, an "**Interest Payment Date**"), subject as provided in Condition 8 (*Payments*). The period beginning on (and including) (i) the Issue Date and ending on (but excluding) the first Interest Payment Date falling on 16 December 2021 and (ii) any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "**Interest Period**".

In respect of all Interest Periods, the amount of interest payable on each Interest Payment Date shall be EUR 28.75 in respect of each principal amount of EUR 1,000.

(b) Cessation of Interest

Each Note will cease to bear interest from the due date for final redemption unless, upon due surrender of the relevant Note, payment of principal is improperly withheld or refused. In such case it will continue to bear interest at such rate (after as well as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment) in accordance with Condition 17 (*Notices*).

(c) Calculation of Interest for an Interest Period

The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

(d) *Calculation of Interest for any other period*

Where interest is to be calculated in respect of a period other than an Interest Period, it will be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the "**Accrual Date**") to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date. The determination of the amount of interest payable under Conditions 7(c) (*Calculation of Interest for an Interest Period*) and 7(d) (*Calculation of Interest for any other period*) by the Fiscal Agent shall, in the absence of manifest and proven error, be binding on all parties.

8 Payments

(a) *Principal*

Payment of principal in respect of each Note and payment of interest due other than on an Interest Payment Date will be made to the person shown in the Register at the close of business on the Record Date (as defined below) and subject to the surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificate at the Specified Office of the Registrar or of the Paying Agent and Transfer Agent.

(b) *Interest*

Payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date.

(c) *Record Date*

"**Record Date**" means the 15th day before the due date for the relevant payment.

(d) *Payments*

Each payment in respect of the Notes pursuant to Conditions 8(a) (*Principal*) and (b) (*Interest*) will be made by euro cheque mailed to the holder of the relevant Note at his address appearing in the Register. However, upon application by the holder to the Specified Office of the Registrar or any Agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by transfer to a euro account maintained by the payee with a bank in a city where banks have access to the TARGET System.

Where payment is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 8(a) (*Principal*), if later, on the business day on which the relevant Definitive Note Certificate is surrendered (or endorsed as the case may be) as specified in Condition 8(a) (*Principal*) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder).

Where payment is to be made by transfer to a euro account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated, in the case of principal, on the later of the due date for payment and the day on which the relevant Definitive Note Certificate is surrendered (or, in the case of part payment only, endorsed) and, in the case of interest, on the due date for payment.

"**TARGET System**" means the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET 2) System or any successor thereto.

(e) Agents

The names of the initial Agents and the Registrar and their Specified Offices are set out below. The Issuer reserves the right under the Fiscal Agency Agreement by giving to the relevant Agent concerned at least 60 days' prior written notice, which notice shall expire at least 30 days before or after any due date for payment in respect of the Notes, to vary or terminate the appointment of any Agent or Registrar and to appoint successor or additional Agents or Registrar, **provided that** it will at all times maintain:

(i) a Fiscal Agent; and

(ii) a Registrar.

Notice of any such removal or appointment and of any change in the Specified Office of any Agent or Registrar will be given to Noteholders in accordance with the provisions of the Fiscal Agency Agreement and Condition 17 (*Notices*) as soon as practicable.

(f) Payments subject to Fiscal Laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(g) Delay in Payment

Noteholders will not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for payment not being a business day, (ii) a cheque mailed in accordance with this Condition 8 (*Payments*) arriving after the due date for payment or being lost in the mail, or (iii) if the holder is late in surrendering (where so required) the relevant Definitive Note Certificate.

(h) Business Days

In this Condition 8 (*Payments*), "**business day**" means any day on which the TARGET System is open and, in the case of surrender of a Definitive Note Certificate, any day on which the commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the place of the Specified Office of the Registrar or relevant Agent, to whom the relevant Definitive Note Certificate is surrendered.

9 Redemption and Purchase

(a) Scheduled redemption

Unless previously purchased and cancelled as provided below, each Note will be redeemed at its principal amount on 16 December 2027 (the "**Maturity Date**"), subject as provided in Condition 8 (*Payments*).

(b) Residual Maturity Call at the Option of the Issuer

The Issuer may, at its option, from and including the date falling 3 months prior to the Maturity Date to but excluding the Maturity Date, subject to having given not less than 30 nor more 60 calendar days' prior notice to the Noteholders in accordance with Condition 17 (*Notices*) (which notice shall be irrevocable and shall specify the date set for redemption), redeem all, but not some only, of the outstanding Notes at their principal amount plus accrued interest up to but excluding the date set for redemption.

(c) No other redemption

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Condition 9(a) (*Scheduled redemption*) and Condition 9(b) (*Residual Maturity Call at the Option of the Issuer*).

(d) Purchase

The Issuer may at any time purchase or procure others to purchase for its account Notes in the open market or otherwise and at any price. The Notes so purchased may be held or resold (**provided that** such resale is outside the United States or, in the case of any Notes resold pursuant to Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933, as amended, is only made to qualified institutional buyers ("**QIBs**") (as defined in Rule 144A) and is otherwise in compliance with all applicable laws) or surrendered for cancellation at the option of the Issuer or otherwise, as the case may be, in compliance with Condition 9(d) (*Cancellation of Notes*). The Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of meetings of the Noteholders or for the purposes of any Written Resolution (as defined in Condition 14 (*Meetings of Noteholders; Written Resolutions*)), as more particularly set out in Condition 14(i) (*Notes controlled by the Issuer*).

(e) Cancellation of Notes

All Notes which are submitted for cancellation pursuant to Condition 9(c) (*Purchase*) will be cancelled and may not be reissued or resold.

10 Taxation

All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within Montenegro or any political subdivision thereof or any authority therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

(a) Other Connection

held by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Montenegro other than the mere holding of the Note; or

(b) Presentation more than 30 days after the Relevant Date

where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering such Definitive Note Certificate for payment on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount plus any accrued interest having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition.

11 Prescription

Claims in respect of principal and interest will become void unless made within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

12 Events of Default

If any of the following events (each an "**Event of Default**") occurs and is continuing:

(a) Non payment

the Issuer fails to pay any amount in respect of the Notes when the same becomes due and payable and such failure continues for a period of 15 days; or

(b) Breach of other obligations

the Issuer defaults in the performance or observance of any of its other obligations under the Notes and such default is incapable of remedy or, if capable of remedy, remains unremedied for 30 days after notice of such default has been given to the Issuer (with a copy to the Fiscal Agent at its Specified Office) by any holder of Notes; or

(c) Cross-Default

(i) the acceleration of the maturity (other than by optional or mandatory prepayment or redemption) of any Public Indebtedness of the Issuer, (ii) the Issuer defaults in the payment of any principal of or interest on any of its Public Indebtedness when and as the same shall become due and payable, and such default continues for more than the grace period, if any, originally applicable thereto or, in the case of interest where such grace period does not exceed 30 days, for more than 30 days or (iii) the Issuer defaults in the payment when due and called upon of any guarantee or indemnity of the Issuer in respect of any Public Indebtedness of any other person and such default continues for more than the grace period, if any, originally applicable thereto or, if such grace period does not exceed 30 days, for more than 30 days; **provided that** the aggregate amount of the relevant Public Indebtedness in respect of which one or more of the events mentioned in this sub-paragraph (c) have occurred (which, for the avoidance of doubt, shall exclude any Public Indebtedness of the Socialist Federal Republic of Yugoslavia, the Federal Republic of Yugoslavia and/or the State Union of Serbia and Montenegro which is allocated to the Issuer) equals or exceeds EUR 20,000,000 or its equivalent; or

(d) Unenforceability

for any reason whatsoever, the obligations under the Notes are declared by a court of competent jurisdiction pursuant to a final non-appealable decision to be no longer binding or no longer enforceable against the Issuer; or

(e) Moratorium

Montenegro shall have declared a general moratorium on the payment of principal of, or interest on, all or any part of its Public Indebtedness; or

(f) Validity

Montenegro or any of its political sub-divisions (on its behalf) repudiates the validity of the Notes; or

(g) IMF

Montenegro ceases to be a member, or becomes ineligible to use the resources of, the International Monetary Fund, then the holders of not less than 25 per cent. in the aggregate principal amount of the outstanding Notes may, by written notice to the Issuer (with a copy to the Fiscal Agent at its Specified Office), declare the Notes due and payable immediately. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer. Upon any declaration of acceleration, the principal, interest and all additional amounts payable on the Notes will become immediately due and payable on the date on which the Issuer receives written notice of the declaration as aforesaid. No delay or omission of any Noteholder shall impair any such right or remedy or constitute a waiver of any such Event of Default.

If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent at its Specified Office), whereupon the relevant declaration shall be withdrawn and shall have no further effect. No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

For the avoidance of doubt, no event of default shall occur if any event under paragraphs (a) to (g) above (inclusive) occurs in respect of any Public Indebtedness of the Socialist Federal Republic of Yugoslavia, the Federal Republic of Yugoslavia and/or the State Union of Serbia and Montenegro which is allocated to the Issuer.

13 Replacement of Notes

If any Definitive Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar or any Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (**provided that** the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Definitive Note Certificates must be surrendered before replacements will be issued.

14 Meetings of Noteholders; Written Resolutions

(a) Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions:

(i) The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the provisions of the Fiscal Agency Agreement. The Issuer will determine the time and place of the meeting and will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.

(ii) The Issuer or the Fiscal Agent will convene a meeting of Noteholders if the holders of at least 10 per cent. in principal amount of the outstanding Notes (as defined in the Fiscal Agency Agreement and described in Condition 14(i) (*Notes controlled by the Issuer*)) have delivered a written request to the Issuer or the Fiscal Agent (with a copy to the Issuer) setting out the purpose of the meeting. The Fiscal Agent will agree the time and place of the meeting with the Issuer promptly. The Issuer or the Fiscal Agent, as the case may be, will notify the Noteholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.

(iii) The Issuer (with the agreement of the Fiscal Agent) will set the procedures governing the conduct of any meeting in accordance with the Fiscal Agency Agreement. If the Fiscal Agency Agreement does not include such procedures, or additional procedures are required, the Issuer and the Fiscal

Agent will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.

(iv) The notice convening any meeting will specify, *inter alia*:

(A) the date, time and location of the meeting;

(B) the agenda and the text of any Extraordinary Resolution (as defined below) to be proposed for adoption at the meeting;

(C) the record date for the meeting, which shall be no more than five business days before the date of the meeting;

(D) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;

(E) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;

(F) whether Condition 14(b) (*Modification of this Series of Notes only*), Condition 14(c) (*Multiple Series Aggregation – Single limb voting*) or Condition 14(d) (*Multiple Series Aggregation – Two limb voting*) shall apply and, if relevant, in relation to which other series of debt securities it applies;

(G) if the proposed modification or action relates to two or more series of debt securities issued by it and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;

(H) such information that is required to be provided by the Issuer in accordance with Condition 14(f) (*Information*);

(I) the identity of the Aggregation Agent (as defined below) and the Calculation Agent (as defined below), if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 14(g) (*Claims Valuation*); and

(J) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.

(v) In addition, the Fiscal Agency Agreement contains provisions relating to Written Resolutions and electronic consents. All information to be provided pursuant to Condition 14(a)(iv) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.

(vi) A "**record date**" in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution as set out below.

(vii) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.

(viii) A "**Written Resolution**" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

(ix) Any reference to "**debt securities**" means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.

(x) "**Debt Securities Capable of Aggregation**" means those debt securities which include or incorporate by reference this Condition 14 (*Meetings of Noteholders; Written Resolutions*) and Condition 15 (*Aggregation Agent; Aggregation Procedures*) or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.

(b) Modification of this Series of Notes only

(i) Any modification of any provision of, or any action in respect of, these Conditions or the Fiscal Agency Agreement in respect of the Notes may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.

(ii) A "**Single Series Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 14(a) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*) by a majority of:

(A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or

(B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Notes.

(iii) A "**Single Series Written Resolution**" means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:

(A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or

(B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Notes.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.

(iv) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

(c) Multiple Series Aggregation – Single limb voting

(i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, **provided that** the Uniformly Applicable condition is satisfied.

(ii) A "**Multiple Series Single Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 14(a) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).

(iii) A "**Multiple Series Single Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

(iv) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be.

(v) The "**Uniformly Applicable**" condition will be satisfied if:

(A) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (1) the same new instrument or other consideration or (2) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or

(B) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to the currency of issuance).

(vi) Any modification or action proposed under Condition 14(c) (*Multiple Series Aggregation – Single limb voting*) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 14(c) (*Multiple Series Aggregation – Single limb voting*) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(d) Multiple Series Aggregation – Two limb voting

(i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.

(ii) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 14(a) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of:

(A) at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(B) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

(iii) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:

(A) at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(B) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

(iv) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.

(v) Any modification or action proposed under this Condition 14(d) (*Multiple Series Aggregation – Two limb voting*) may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 14(d) (*Multiple Series Aggregation – Two limb voting*) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(e) Reserved Matters

In these Conditions, "**Reserved Matter**" means any proposal:

(i) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;

(ii) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;

(iii) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;

(iv) to change this definition, or the definition of "Extraordinary Resolution", "Single Series Extraordinary Resolution", "Multiple Series Single Limb Extraordinary Resolution", "Multiple Series Two Limb Extraordinary Resolution", "Written Resolution", "Single Series Written Resolution", "Multiple Series Single Limb Written Resolution" or "Multiple Series Two Limb Written Resolution";

(v) to change the definition of "debt securities" or "Debt Securities Capable of Aggregation";

(vi) to change the definition of "Uniformly Applicable";

(vii) to change the definition of "outstanding" in the Fiscal Agency Agreement or to modify the provisions of Condition 14(i) (*Notes controlled by the Issuer*);

(viii) to (A) change the legal ranking of the Notes or (B) to approve such other arrangement by way of Extraordinary Resolution of the Noteholders or by a Written Resolution as is referred to in the first paragraph of Condition 5 (*Negative Pledge*);

(ix) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to the Maturity Date, set out in Condition 12 (*Events of Default*);

(x) to change the law governing the Notes, the courts to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 20 (*Governing Law; Jurisdiction and Arbitration*);

(xi) to impose any condition on or otherwise change the Issuer's obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;

(xii) to modify the provisions of this Condition 14(e) (*Reserved Matters*);

(xiii) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security; or

(xiv) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Conditions as so modified than:

(A) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or

(B) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

(f) Information

Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 14(b) (*Modification of this Series of Notes only*), Condition 14(c) (*Multiple Series Aggregation – Single limb voting*) or Condition 14(d) (*Multiple Series Aggregation – Two limb voting*), the Issuer shall publish in accordance with Condition 15 (*Aggregation Agent; Aggregation Procedures*), and provide the Fiscal Agent, with the following information:

(A) a description of the Issuer’s economic and financial circumstances which are, in the Issuer’s opinion, relevant to the request for any potential modification or action, a description of the Issuer’s existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;

(B) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement and where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;

(C) a description of the Issuer’s proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and

(D) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 14(a)(iv)(G) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*),

provided that the foregoing requirements shall not apply if and to the extent that the terms of the Extraordinary Resolution or Written Resolution (as the case may be) include a waiver in respect thereof.

(g) Claims Valuation

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 14(c) (*Multiple Series Aggregation – Single limb voting*) and Condition 14(d) (*Multiple Series Aggregation – Two limb voting*), the Issuer may appoint a Calculation Agent (the “**Calculation Agent**”). The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the par value of the Notes and such affected series of debt securities will be calculated. In any such case where a Calculation Agent is appointed, the same person will be appointed as the

Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

(h) Manifest error, etc.

The Notes, these Conditions and the provisions of the Fiscal Agency Agreement may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Noteholders.

(i) Notes controlled by the Issuer

For the purposes of (a) determining the right to attend and vote at any meeting of Noteholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution, (b) this Condition 14 (*Meetings of Noteholders; Written Resolutions*) and (c) Condition 12 (*Events of Default*), any Notes which are for the time being held by the Issuer, by a department, ministry or agency of the Issuer, or by a corporation, trust or other legal entity that is controlled by the Issuer or a department, ministry or agency of the Issuer (and, in the case of a Note held by any such above-mentioned corporation, trust or other legal entity, the holder of the Note does not have autonomy of decision), shall be disregarded and be deemed not to remain outstanding where:

(A) the holder of a Note for these purposes is the entity legally entitled to vote the Note for or against a proposed modification or, if different, the entity whose consent or instruction is by contract required, directly or indirectly, for the legally entitled holder to vote the Note for or against a proposed modification;

(B) a corporation, trust or other legal entity is controlled by the Issuer or by a department, ministry or agency of the Issuer if the Issuer or any department, ministry or agency of the Issuer has the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity; and

(C) the holder of a Note has autonomy of decision if, under applicable law, rules or regulations and independent of any direct or indirect obligation the holder may have in relation to the Issuer: (x) the holder may not, directly or indirectly, take instruction from the Issuer on how to vote on a proposed modification; or (y) the holder, in determining how to vote on a proposed modification, is required to act in accordance with an objective prudential standard, in the interest of all of its stakeholders or in the holder's own interest; or (z) the holder owes a fiduciary or similar duty to vote on a proposed modification in the interest of one or more persons other than a person whose holdings of Notes (if that person then held any Notes) would be deemed to be not outstanding under this Condition 14(i) (*Notes controlled by the Issuer*).

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any meeting of Noteholders, or in connection with any Written Resolution, the Issuer shall provide to the Fiscal Agent a copy of the certificate prepared pursuant to Condition 15(d) (*Certificate*) which includes information on the total number of Notes which are for the time being held by the Issuer, by a department, ministry or agency of the Issuer, or by a corporation, trust or other legal entity that is controlled by the Issuer or a department, ministry or agency of the Issuer and over which such above-mentioned corporation, trust or other legal entity does not have autonomy of decision (as set out above) and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Fiscal Agent shall make any such certificate available for inspection during normal business hours at its Specified Office and, upon reasonable request, will allow copies of such certificate to be taken.

(j) Publication

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 15(g) (*Manner of publication*).

(k) Exchange and Conversion

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders.

15 Aggregation Agent; Aggregation Procedures

(a) Appointment

The Issuer will appoint an Aggregation Agent (the "**Aggregation Agent**") to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Fiscal Agency Agreement in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

(b) Extraordinary Resolutions

If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

(c) Written Resolutions

If a Written Resolution has been proposed under these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

(d) Certificate

For the purposes of Condition 15(b) (*Extraordinary Resolutions*) and Condition 15(c) (*Written Resolutions*), the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 14(b) (*Modification of this Series of Notes only*), Condition 14(c) (*Multiple Series Aggregation – Single limb voting*) or Condition 14(d) (*Multiple Series Aggregation – Two limb voting*), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

(i) list the total principal amount of Notes and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the record date; and

(ii) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 14(i) (*Notes controlled by the Issuer*) on the record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

(e) Notification

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 15 (*Aggregation Agent; Aggregation Procedures*) to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

(f) Binding nature of determinations; no liability

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 15 (*Aggregation Agent; Aggregation Procedures*) by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(g) Manner of publication

The Issuer will publish all notices and other matters required to be published pursuant to the Fiscal Agency Agreement including any matters required to be published pursuant to Condition 12 (*Events of Default*), Condition 14 (*Meetings of Noteholders; Written Resolutions*), this Condition 15 (*Aggregation Agent; Aggregation Procedures*) and Condition 16 (*Noteholders' Committee*):

(i) through Euroclear Bank SA/NV, Clearstream Banking S.A., and/or any other clearing system in which the Notes are held;

(ii) in such other places and in such other manner as may be required by applicable law or regulation; and

(iii) in such other places and in such other manner as may be customary.

16 Noteholders' Committee

(a) Appointment:

(i) Holders of at least 25 per cent. of the aggregate principal amount of the outstanding debt securities of all series of affected debt securities (taken in aggregate) may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), appoint any person or persons as a committee to represent the interests of such holders (as well as the interests of any holders of outstanding debt securities who wish to be represented by such a committee) if any of the following events has occurred:

(a) an Event of Default under Condition 12 (*Events of Default*);

(b) any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 12 (*Events of Default*) become an Event of Default;

(c) any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a rescheduling or restructuring of the Notes or any other affected series of debt securities (whether by amendment, exchange offer or otherwise); or

(d) with the agreement of the Issuer, at a time when the Issuer has reasonably reached the conclusion that its debt may no longer be sustainable whilst the Notes or any other affected series of debt securities are outstanding.

(ii) Upon receipt of a written notice that a committee has been appointed in accordance with Condition 16(a)(i) (*Appointment*) and a certificate delivered pursuant to Condition 16(d) (*Certification*), the Issuer shall give notice of the appointment of such a committee to:

(a) all Noteholders in accordance with Condition 17 (*Notices*); and

(b) the holders of each affected series of debt securities in accordance with the terms and conditions of such affected series of debt securities,

as soon as practicable after such written notice and such certificate are delivered to the Issuer.

(b) Powers:

Such committee in its discretion may, among other things:

(i) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders;

(ii) adopt such rules as it considers appropriate regarding its proceedings;

(iii) enter into discussions with the Issuer and/or other creditors of the Issuer; and

(iv) designate one or more members of the committee to act as the main point(s) of contact with the Issuer and provide all relevant contact details to the Issuer.

Except to the extent provided in this Condition 16(b) (*Powers*), such committee shall not have the ability to exercise any powers or discretions which the Noteholders could themselves exercise.

(c) Engagement with the committee and provision of information:

(i) The Issuer shall:

(a) subject to paragraph (c)(ii) immediately below, engage with the committee in good faith;

(b) provide the committee with information equivalent to that required under Condition 14(f) (*Information*) and related proposals, if any, in each case as the same become available, subject to any applicable information disclosure policies, rules and regulations; and

(c) pay any reasonable fees and expenses of any such committee as may be agreed with it (including, without limitation, the reasonable and documented fees and expenses of the committee's legal and financial advisers, if any) following receipt of reasonably detailed invoices and supporting documentation.

(ii) If more than one committee has been appointed by holders of affected series of debt securities in accordance with the provisions of this Condition 16 (*Noteholders' Committee*) and/or equivalent provisions set out in the terms and conditions of any affected series of debt securities, the Issuer shall not be obliged to engage with such committees separately. Such committees may appoint a single steering group (to be comprised of representatives from such committees), whereupon the Issuer shall engage with such steering group.

(d) Certification:

Upon the appointment of a committee, the person or persons constituting such a committee (the "**Members**") will provide a certificate to the Issuer and to the Fiscal Agent signed by the authorised representatives of the Members, and the Issuer and the Fiscal Agent may rely upon the terms of such certificate.

The certificate shall certify:

(i) that the committee has been appointed;

(ii) the identity of the Members; and

(iii) that such appointment complies with the terms and conditions of the relevant bond documentation.

Promptly after any change in the identity of the Members, a new certificate, which each of the Issuer and the Fiscal Agent may rely on conclusively, will be delivered to the Issuer and the Fiscal Agent identifying the new Members. Each of the Issuer and the Fiscal Agent will assume that the membership of the committee has not changed unless and until it has received a new certificate.

The provisions of this Condition 16(d) (*Certification*) shall apply, *mutatis mutandis*, to any steering group appointed in accordance with Condition 16(c)(ii) (*Engagement with the committee and provision of information*).

In appointing a person or persons as a committee to represent the interests of the Noteholders, the Noteholders may instruct a representative or representatives of the committee to form a separate committee or to join a steering group with any person or persons appointed for similar purposes by other affected series of debt securities.

17 Notices

Notices required to be given to Noteholders pursuant to these Conditions will be sent to them by mail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth weekday (excluding Saturday and Sunday) after the date of mailing.

So long as any of the Notes are represented by the Global Notes, notices required to be given in accordance with Condition 17 (Notices) may instead be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders.

18 Further Issues

The Issuer may from time to time, without notice to or the consent of the Noteholders and in accordance with the Fiscal Agency Agreement, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the date for and amount of the first payment of interest) so as to be consolidated and form a single series with the Notes ("**Further Notes**").

19 Currency Indemnity

An amount received or recovered in a currency other than Euro (the "**Contractual Currency**") (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the liquidation of the Issuer or otherwise) by any Noteholder in respect of any sum expressed to be due to it from the Issuer will only discharge the Issuer to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the relevant Noteholder pursuant to these Conditions, the Issuer will indemnify such Noteholder against any loss sustained by it as a result on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Registrar or any Paying Agent and Transfer Agent with its Specified Office in London. In any event, the Issuer will indemnify the relevant Noteholder against the cost of making any such purchase.

20 Governing Law; Jurisdiction and Arbitration

(a) Governing law

The Notes and any non-contractual obligations arising out of or in connection with the Notes shall be governed by, and construed in accordance with, English law.

(b) Arbitration

Subject to Condition 20(d) (*Noteholders' Option*), any controversy, claim, dispute or difference of whatever nature arising under, out of or in connection with the Notes (including a controversy, claim, dispute or difference regarding its formation, existence, termination or validity of the Notes or any non-contractual obligations arising out of or in connection with the Notes) (a "**Dispute**") shall be referred to and finally resolved by arbitration in accordance with the rules of the London Court of International Arbitration ("**LCIA**") (the "**Rules**") in force as at the time of the filing of the Request for Arbitration (as defined in the Rules) and as modified by this Condition 20(b) (*Arbitration*), which Rules shall be deemed incorporated by reference into this Condition 20(b) (*Arbitration*). The number of arbitrators shall be three, one of whom shall be nominated by the claimant(s), one by the respondent(s) and the third of whom, who shall act as presiding arbitrator, shall be nominated by the two party-nominated arbitrators, **provided that** if the claimant(s) or the respondent(s) fails to nominate an arbitrator within the time limits specified by the Rules or if the presiding arbitrator has not been nominated within 30 days of the nomination of the second party-nominated arbitrator, such arbitrator shall be appointed by the LCIA Court. The parties may nominate and the LCIA Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The seat of arbitration shall be London, England and the language of arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

(c) Consolidation of arbitration proceedings

If any Dispute has been referred to arbitration pursuant to Condition 20(b) (*Arbitration*), and another related dispute, controversy or claim has also been referred to arbitration pursuant to Condition 20(b) (*Arbitration*) or under the terms of the Fiscal Agency Agreement (together the "**Related Arbitrations**"), then, at any time after the arbitral tribunal has been appointed in relation to any one Related Arbitration (the "**Appointed Tribunal**") and before the arbitral tribunal has been appointed in relation to the other Related Arbitration, any party to each of the Related Arbitrations may, after giving notice in writing to all parties to the Related Arbitrations, request that the Appointed Tribunal be appointed and have jurisdiction in relation to each of the Related Arbitrations, subject to the consent of the Appointed Tribunal and approval by the LCIA. In deciding whether to accept appointment in relation to any Related Arbitrations, the Appointed Tribunal shall consider whether the arbitrations raise common or related issues of law or fact and whether its appointment in the Related Arbitrations would serve the interests of justice and efficiency. Where the same arbitral tribunal has been appointed in relation to two or more Related Arbitrations pursuant to this Condition 20(c) (*Consolidation of arbitration proceedings*), the arbitral tribunal may, after consulting all parties to the Related Arbitrations, order that the whole or part of the matters at issue be heard together upon such terms or conditions as it sees fit.

(d) Noteholders' Option

Any Noteholder may elect by notice in writing ("**Noteholder Election Notice**") to the Issuer that any Dispute(s) specified in the Noteholder Election Notice shall, as between itself and the Issuer, instead be heard by the courts of England, **provided that** a Noteholder Election Notice shall have no effect whatsoever in relation to a Dispute(s) that has already been referred to arbitration pursuant to Condition 20(b) (*Arbitration*). Upon the giving of a Noteholder Election Notice, no arbitral tribunal shall have jurisdiction in respect of the Dispute(s) specified in the Noteholder Election Notice as between the electing Noteholder(s) and the Issuer. For the avoidance of doubt, an election under this Condition 20(d) (*Noteholders' Option*) by one or more Noteholders shall not bind the other Noteholders, nor shall it affect the jurisdiction of any arbitral tribunal appointed in respect of any Dispute(s) between the Issuer and any Noteholders not making such an election.

(e) Jurisdiction

In the event that any one or more Noteholder(s) gives a Noteholder Election Notice in respect of any Dispute(s) pursuant to Condition 20(d) (*Noteholders' Option*) specifying that such Dispute(s) be heard by the courts of England, the Issuer and the Noteholders irrevocably agree that the courts of England shall have exclusive jurisdiction to hear and determine any such Dispute(s) and, for such purposes, irrevocably submit to the jurisdiction of such courts.

(f) Appropriate Forum

For the purposes of Condition 20(e) (*Jurisdiction*), the Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any proceedings ("**Proceedings**") and agrees not to claim that any such court is an inconvenient or inappropriate forum.

(g) ***Service of Process***

The Issuer agrees that the process by which any Proceedings are commenced in England pursuant to Condition 20(e) (*Jurisdiction*) or by which any Proceedings are commenced in the English courts in support of, or in connection with, an arbitration commenced pursuant to Condition 20(b) (*Arbitration*) may be served on it by being delivered to the Ambassador from Montenegro to the Court of St. James's at Embassy of Montenegro, 47 De Vere Gardens, London W8 5AW. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall appoint a further person in England to accept service of process on its behalf. Nothing in this Condition shall affect the right of Noteholders to serve process in any other manner permitted by law.

(h) ***Waiver of Immunity***

To the extent that the Issuer may in any jurisdiction in respect of any Proceedings or Dispute be entitled to claim for itself or its assets immunity from jurisdiction, suit, enforcement, execution, attachment (whether in aid of execution of a judgment or an arbitration award, before judgment or award or otherwise) or other legal process, including in relation to the enforcement of any judgment or arbitration award, and to the extent that in any such jurisdiction there may be attributed to itself or its assets such immunity (whether or not claimed), the Issuer irrevocably consents to the enforcement and execution of any judgment or award and irrevocably agrees not to claim and irrevocably waives such immunity, subject to Condition 20(i) (*Exclusions – Waiver of Immunity*) to the fullest extent permitted by the laws of the jurisdiction.

(i) ***Exclusions – Waiver of Immunity***

Notwithstanding any of the provisions of Condition 20(h) (*Waiver of Immunity*), the Issuer does not waive any immunity in respect of any present or future (i) "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, (ii) "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963, (iii) military property or military assets of Montenegro relating to any of the assets referred to in the foregoing sub-paragraphs (i) and (ii), (iv) property, weapons, equipment and funds serving the purpose of state security and defence, (v) assets that are non-tradable (*res extra commercium*), natural resources and goods in general use, and (vi) receivables of Montenegro on the basis of taxes, contributions and customs.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM AND TRANSFER RESTRICTIONS

Summary of provisions relating to the Notes in Global Form

The Notes will be represented on issuance by the Global Notes. Notes offered and sold outside the United States in reliance on Regulation S will be represented by interests in the Regulation S Global Note, in registered form, without interest coupons attached, which will be deposited on the Issue Date with the Common Depositary and registered in the name of a nominee for such Common Depositary in respect of interests held through Euroclear and Clearstream, Luxembourg.

Notes offered and sold in reliance on Rule 144A will be represented by interests in the Rule 144A Global Note, in registered form, without interest coupons attached, which will be deposited on the Issue Date with the Common Depositary and registered in the name of a nominee for such Common Depositary in respect of interests held through Euroclear and Clearstream, Luxembourg. The Rule 144A Global Note (and any Note Certificates (as defined below) issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of each such Note as set forth under paragraph (iii) of the "*Transfer Restrictions*" below.

The Regulation S Global Note will have an ISIN and a Common Code and the Rule 144A Global Note will have a separate ISIN and Common Code.

For the purposes of the Rule 144A Global Note and the Regulation S Global Note, any reference in the Conditions to "Note Certificate" or "Note Certificates" shall, except where the context otherwise requires, be construed so as to include the relevant Rule 144A Global Note or, as the case may be, the relevant Regulation S Global Note and interests therein.

Except in the limited circumstances described below, owners of interests in a Global Note will not be entitled to receive physical delivery of Definitive Note Certificates.

Amendments to the Conditions

Each Global Note contains provisions that apply to the Notes that it represents, some of which modify the effect of the above Conditions of the Notes. The following is a summary of those provisions:

Payments

Payments in respect of Notes evidenced by a Global Note will be made to the person who appears in the Register at the close of business on the Clearing System Business Day immediately prior to the due date for such payment (the "**Record Date**") against presentation for endorsement and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Fiscal Agent. A record of each payment of principal will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes. For the purposes of this paragraph, "**Clearing System Business Day**" means Monday to Friday, inclusive except 25 December and 1 January.

Notices

So long as the Global Notes are held on behalf of Euroclear or Clearstream, Luxembourg (each, a "**Clearing System**") or any other clearing system (an "**Alternative Clearing System**"), notices to holders of Notes represented by the Global Notes may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.

Meetings

The holder of a Global Note will (unless the Global Note represents only one Note) be treated as having one vote in respect of each EUR 1,000 in nominal amount of Notes for which the relevant Global Note may be exchangeable.

Prescription

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by a Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 10 (*Taxation*) of the Notes).

Purchase and Cancellation

Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the relevant Global Note.

Settlement of Pre-Issue Trades

It is expected that delivery of the Notes will be made against payment therefor on the Issue Date, which could be more than two business days following the date of pricing. Under Rule 15c6-l under the Exchange Act, trades in the United States secondary market generally are required to settle within two business days (T+2), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes in the United States on the date of pricing or the next succeeding business days until two days prior to the Issue Date will be required, by virtue of the fact the Notes initially will settle beyond T+2, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and purchasers of Notes between the relevant date of pricing and the new Issue Date should consult their own advisers.

Electronic Consent and Written Resolution

While each Global Note is held on behalf of a relevant Clearing System, then:

(a) approval of a resolution proposed by the Issuer given by way of electronic consents communicated through the electronic communications systems of the relevant Clearing System(s) in accordance with their operating rules and procedures by or on behalf of (i) all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Fiscal Agency Agreement or (ii) (where such holders have been given at least 21 days' notice of such resolution) by or on behalf of:

   (i) in respect of a proposal that falls within Conditions 14(b)(ii) and 14(b)(iii), the persons holding at least 75 per cent. of the aggregate principal amount of the outstanding Notes in the case of a Reserved Matter or more than 50 per cent. of the aggregate principal amount of the outstanding Notes, in the case of a matter other than a Reserved Matter;

   (ii) in respect of a proposal that falls within Conditions 14(c)(ii) and 14(c)(iii), the persons holding at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate);

   (iii) in respect of a proposal that falls within Conditions 14(d)(ii) and 14(d)(iii), (x) the persons holding at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate) and (y) the persons holding more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually), (in the case of paragraphs (i) and (ii) above, each an "**Electronic Consent**") shall for all purposes (including Reserved Matters) take effect as (A) a Single Series Extraordinary Resolution (in the case of paragraph (i) above), (B) a Multiple Series Single Limb Extraordinary Resolution (in the case of paragraph (ii) above) or (C) a Multiple Series Two Limb Extraordinary Resolution (in the case of paragraph (iii) above), as applicable, and shall be binding on all relevant Noteholders whether or not they participated in such Electronic Consent; and

(b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Fiscal Agency Agreement) has been validly passed, the Issuer shall be entitled to rely on consent or instructions given in writing directly to the Issuer by accountholders in the Clearing System with entitlements to such Global Note or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and **provided that**, in each case, the Issuer has obtained commercially reasonable evidence to ascertain the validity of such holding and has taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, "**commercially reasonable evidence**" includes any certificate or other document issued by the relevant Clearing System or any Alternative Clearing System, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's Creation Online system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. The Issuer shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

Transfer Restrictions

A beneficial interest in a Rule 144A Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Regulation S Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Fiscal Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any beneficial interest in either the Rule 144A Global Note or the Regulation S Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Note for so long as such person retains such an interest.

The Notes are being offered and sold in the United States only to QIBs within the meaning of and in reliance on Rule 144A. Because of the following restrictions, purchasers of Notes offered in the United States in reliance on Rule 144A are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.

Each purchaser of Notes offered hereby pursuant to Rule 144A will be deemed to have represented, agreed and acknowledged as follows (terms used herein that are defined in Rule 144A are used herein as defined therein):

(i) the purchaser (a) is a QIB within the meaning of Rule 144A, (b) is acquiring the Notes for its own account or for the account of one or more QIBs and (c) is aware, and each beneficial owner of such Notes has been advised, that the sale of the Notes to it is being made in reliance on Rule 144A;

(ii) the Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except in accordance with the legend set out below;

(iii) the Rule 144A Global Note and any Rule 144A Note Certificates (as defined below) issued in exchange for an interest in the Rule 144A Global Note will bear a legend to the following effect, unless the Issuer determines otherwise in accordance with applicable law:

“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER, AND WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), AND THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES, FOR THE BENEFIT OF THE ISSUER, THAT (A) THIS NOTE (AND ANY INTEREST HEREIN) MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER, (2) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE (OR INTEREST HEREIN) FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE.

THIS NOTE AND ALL RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT”; and

(iv) the Issuer, the Registrar, the Joint Lead Managers and their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. If the purchaser is acquiring any Notes for the account of one or more other QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power and authority to make, and does make, the foregoing acknowledgments, representations and agreements on behalf of each such account.

Each purchaser of Notes outside the United States pursuant to Regulation S will be deemed to have represented, agreed and acknowledged as follows:

(i) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and is located outside the United States (within the meaning of Regulation S);

(ii) it understands that such Notes have not been and will not be registered under the Securities Act and will not offer, sell, pledge or otherwise transfer such Notes except in compliance with the Securities Act and other applicable securities laws; and

(iii) the Issuer, the Registrar, the Joint Lead Managers and their prospective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Exchange of Interests in Global Notes for Note Certificates

The Rule 144A Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for Definitive Note Certificates in registered form ("**Rule 144A Note Certificates**") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative or successor clearing system is available or (b) principal in respect of any Notes is not paid when due and payable. In such circumstances, such Rule 144A Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg (or the nominee for the Common Depositary) shall direct in writing.

The Regulation S Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for Definitive Note Certificates in registered form ("**Regulation S Note Certificates**") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative or successor clearing system is available or (b) principal in respect of any Notes is not paid when due and payable. In such circumstances, such Regulation S Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg (or the nominee for the Common Depositary) shall direct in writing.

In the event that the Rule 144A Global Note is to be exchanged for Rule 144A Note Certificates or the Regulation S Global Note is to be exchanged for Regulation S Note Certificates (together, "**Note Certificates**") the relevant Global Note shall be exchanged in full for the relevant Note Certificates and the Issuer will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders.

On exchange, a person having an interest in a Global Note must provide the Registrar with (i) a written order containing instructions and such other information as the Issuer and such Registrar may require to complete, execute and deliver such Note Certificates and (ii) in the case of the Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Note Certificates issued in exchange for a beneficial interest in the Rule 144A Global Note shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*" above, Rule 144A Note Certificates issued as described above will not be exchangeable for beneficial interests in the Regulation S Global Note and Regulation S Note Certificates issued as described above will not be exchangeable for beneficial interests in the Rule 144A Global Note.

In addition to the requirements described under "*Transfer Restrictions*" above, the holder of a Note may transfer such Note only in accordance with the provisions of Condition 3 (*Transfer of Notes*) of the Notes.

Upon the transfer, exchange or replacement of a Rule 144A Note Certificate bearing the legend referred to under "*Transfer Restrictions*" above, or upon specific request for removal of the legend on a Rule 144A Note Certificate, the Issuer will deliver only Rule 144A Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

The Registrar will not register the transfer of any Notes or exchange of interests in a Global Note for Note Certificates for a period of 15 calendar days ending on the due date of any payment of principal or interest in respect of such Notes.

Direct Rights

In the event that any Global Note becomes exchangeable for Note Certificates, then the holder of the Global Note may elect that the direct rights under the provisions of the Global Note shall come into effect. Such election shall be made by notice to the Fiscal Agent and by surrendering the Global Note to or to the order of the Fiscal Agent. In such event, the Issuer shall procure that the Registrar, in respect of each person shown in the records of the Clearing Systems (or any Alternative Clearing System) as being entitled to interest in the Notes (each an "**Accountholder**"), enters in the Register the name of each Accountholder as a holder of direct rights in respect of the Notes in an aggregate principal amount equal to the principal amount shown in the records of the Clearing Systems (or any Alternative Clearing System) of each Accountholder's interest in the Notes. To the extent that the Registrar makes such entries in its Register, the holder will have no further rights under the Global Note, but without prejudice to the rights which the holder or Accountholders may have. Accountholders will acquire directly against the Issuer, subject to their rights being entered in the Register as described above and subject as provided in the Global Note, all those rights to which they would have been entitled if, immediately before the date on which the Registrar is required to enter in its Register the rights of the Accountholders, they had been the registered holders of Notes in an aggregate principal amount equal to the principal amount of Note Certificate they were shown as holding in the records of the Clearing Systems or any Alternative Clearing System (as the case may be).

Euroclear and Clearstream, Luxembourg Arrangements

So long as Euroclear or Clearstream, Luxembourg or the nominee of the Common Depositary is the registered holder of a Global Note, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Fiscal Agency Agreement and the Notes. Payments of principal, interest and additional amounts, if any, in respect of Global Notes will be made to Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, the Fiscal Agent, any other Agent or the Joint Lead Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal and interest with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg from an Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers in accordance with the relevant system's rules and procedures.

Interest on the Notes (other than interest on redemption) will be paid to the holder shown on the Register on the Record Date. Principal and interest with respect to the Rule 144A Note Certificates and the Regulation S Note Certificates on redemption will be paid to the holder shown on the Register on the Record Date upon delivery and surrender of the relevant Note Certificate. Trading between the Rule 144A Global Note and the relevant Regulation S Global Note will therefore be net of accrued interest from the relevant Record Date to the relevant Interest Payment Date.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons will be limited. Because Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the Notes in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of the Common Depositary to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg. Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in the Clearing Systems.

Interests in a Regulation S Global Note and the Rule 144A Global Note will be in uncertificated book-entry form.

Trading between Euroclear and/or Clearstream, Luxembourg Account Holders

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

Although the foregoing sets out the procedures of Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the Notes among participants of Euroclear and Clearstream, Luxembourg, neither Euroclear nor Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Fiscal Agent, any other Agent, the Registrar or any of the Joint Lead Managers or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act, will have any responsibility for the performance by Euroclear and Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

USE AND ESTIMATED NET AMOUNT OF PROCEEDS

The estimated net proceeds of the issue of the Notes, after deduction of commissions, fees and estimated expenses, will be approximately EUR 745,020,000. In accordance with the 2020 Budget Law (Official Gazette 74/19 and 61/20) and the 2020 Borrowing Decision (Official Gazette 74/19 and 61/20), the net proceeds of the issue of the Notes will be used by the Issuer for the creation of fiscal reserves for financing of the 2021 budget and the proceeds will be applied towards budget deficit purposes and debt refinancing purposes of the Issuer.

MONTENEGRO

Geography and Population

Montenegro is located in South-Eastern Europe and is bordered by Croatia to the West, Bosnia and Herzegovina to the North-West, Serbia to the North-East, Kosovo to the East and Albania to the South-East. To the South-West, Montenegro has 293 kilometres of coastline on the Adriatic Sea, on the other side of which lies Italy.

Montenegro covers an area of approximately 14,000 square kilometres. The capital and administrative centre of Montenegro is Podgorica, where the Government and most of the other state institutions are located. The historic royal capital is Cetinje where certain of the country's governmental and cultural institutions and the office of the President are located.

The total population of Montenegro is approximately 622,028 (according to 2019 data), with approximately 63 per cent. of the population living in urban areas and the remainder in rural areas (according to the last census conducted in 2011). The population density is approximately 45 persons per square kilometre. The highest population concentration is in the Podgorica municipality (including the municipality of Golubovci), which, together with the nearby municipality of Tuzi, has a population of approximately 199,715, making up approximately 31 per cent. of the national total. The official language in Montenegro is Montenegrin, although Serbian, Bosnian, Albanian and Croatian are also recognised. Eastern Orthodox Christianity is the most widely practised religion in the country.

Historical Background

The history of Montenegro dates back to the ninth century with the development of Duklja, which encompassed approximately the territories of present-day Montenegro. The medieval country had three reigning dynasties before it was annexed by the Ottoman Empire at the end of the 15th century, but managed to preserve a level of autonomy throughout. Following constant rebellions by the Montenegrins against the Ottoman Empire, Montenegro became a theocracy until 1852, when Prince Danilo decided to renounce his ecclesiastical position and, as a result, Montenegro became a principality.

Montenegro was the first Balkan country to achieve full independence in the Berlin Congress in 1878. In 1918, at the end of the First World War, it became part of Yugoslavia, which was initially established as the union of the States of Slovenes, Croats and Serbs, and after the Second World War became a republic, one of six forming the Socialist Federal Republic of Yugoslavia. After the dissolution of the Socialist Federal Republic of Yugoslavia in 1992, Montenegro, together with Serbia, remained part of the Federal Republic of Yugoslavia. The status of the federation between Montenegro and Serbia was decided by the referendum on Montenegrin independence on 21 May 2006, and as a result Montenegro declared its independence on 3 June 2006.

Political System and Developments

Constitution

The current Constitution was ratified and adopted by the Constitutional Parliament on 19 October 2007. The Constitution established a democratic republic with a multiparty political system and is based on the separation of powers between the legislature, executive and judiciary. The Parliament subsequently adopted amendments to the Constitution on 31 July 2013, which were aimed at enhancing the independence of the judiciary.

Under the Constitution, the President serves a five-year term and may only serve two terms. In order to be eligible for the position, a person must be a citizen of Montenegro and must have lived in Montenegro for 10 of the 15 years prior to his candidature. The President proposes candidates for the role of Prime Minister who is then appointed by the Parliament. The Prime Minister, in turn, proposes Government Ministers for confirmation by the Parliament. The last presidential election was held on 15 April 2018. The next presidential election is scheduled to be held in 2023.

Legislature

Montenegro has a single chamber Parliament, which consists of 81 elected members who are elected in a national general election for a four-year term. The Parliament passes all laws of Montenegro, ratifies international treaties, appoints the Prime Minister, adopts the budget and performs all other duties specified for it in accordance with the Constitution. Laws are passed by majority vote, except that certain laws including those which deal with certain constitutional rights and the election of the Constitutional Court judges, Supreme State Prosecutor and members of the Council (as defined below) can only be passed by (in certain cases) a two-thirds majority of all members. The President promulgates laws validly enacted by the Parliament.

The last parliamentary elections were held on 30 August 2020.

The Executive

The President is elected by universal suffrage. The current President, Mr. Milo Đukanović, was elected with 53.9 per cent. of the total vote in the 2018 elections. Mr. Milo Đukanović also serves as the president of the DPS and previously served as Prime Minister (between 1991-1998, 2003-2006, 2008-2010 and 2012-2016) and

President (between 1998-2002) of Montenegro. The President promulgates laws, calls elections for the Parliament, proposes candidates for the role of Prime Minister, confers decorations and awards and performs all other duties specified for him in accordance with the Constitution.

The Government is organised into 12 ministries and is led by the Prime Minister. Mr. Zdravko Krivokapic, the leader of the coalition For the Future of Montenegro, was elected as the Prime Minister on 4 December 2020.

The 2020 Election

On 30 August 2020, the opposition parties forming three coalitions, For the Future of Montenegro, Peace is Our Nation and In Black and White won the parliamentary elections in Montenegro combining for 50.62 per cent. of the vote. This resulted in the fall from power of the Democratic Party of Socialists, which had ruled the country since the introduction of the multi-party system in 1990. The voter turnout was at 73.4 per cent. Following their victory, the leaders of the three opposition parties agreed to form an expert government and to continue to work on the EU accession process.

The results of the 30 August 2020 elections are set out below:

Parties	**% of Votes**	**Seats**
Democratic Party of Socialists (DPS)	35.06	30
For the Future of Montenegro (ZBCG)	32.55	27
Peace is Our Nation (MNN)	12.53	10
In Black and White	5.54	4
Social Democrats (SD)	4.09	3
Bosniak Party	3.98	3
Social Democratic Party (SDP)	3.14	2
Albanians List (AL)	1.58	1
Albanian Coalition (AK)	1.14	1
Total	99.61	81

The Judicial System

Montenegro's three-tier judicial system is independent in accordance with the principle of division of power. The first level comprises the Basic Courts, with the Superior Courts making up the next level of the court system. The Supreme Court is the highest court in Montenegro. Other specialised courts exist to deal with commercial and administrative law matters. Judges are elected by the Council. The Council is appointed for four years and consists of the Supreme Court President, four judges elected by the Conference of Judges, four renowned lawyers elected by members of the Parliament and the Minister of Justice. Judges are appointed for an indefinite term and may only be removed in accordance with the Law on Judges. In 2015, Montenegro set up a special prosecution office for organised crime and corruption, pledging to investigate high-level politicians.

The Constitutional Court consists of seven judges who are elected for a 12-year term by the Parliament. It has the authority to annul unconstitutional laws and regulations, and to decide on jurisdictional questions between the legislature, executive and judiciary. It also has the power to impeach the President. The Constitutional Court's function includes protecting the constitutional freedom and rights of citizens. See also "*Risk Factors—Risk Factors Relating to Montenegro—The uncertainties relating to the Montenegrin judicial system could have* *an adverse effect on its economy and thus on the ability of Montenegro to repay principal and make payments of interest on the Notes*".

Local Governments

Montenegro has 24 areas of local government, comprising 22 municipalities, the capital city, Podgorica, and the historic royal capital city, Cetinje. The local government of Podgorica also encompasses one smaller nearby municipality, Golubovci.

The following table sets out the size and population of each area of local government, according to 2019 estimates.

Municipality	Area (in square km)	Population
Andrijevica	283	4,585
Bar	598	44,028
Berane	544	26,632
Bijelo Polje	924	42,191
Budva	122	22,061
Cetinje	910	15,181
Danilovgrad	501	18,284
Gusinje	157	3,998
Herceg Novi	235	30,597
Kolasin	897	7,228
Kotor	335	22,753
Mojkovac	367	7,553
Niksic	2,065	69,203
Petnjica	173	5,242
Plav	329	8,319
Pljevlja	1,346	27,006
Pluzine	854	2,613
Podgorica	1,205	189,260
Rozaje	432	23,024
Savnik	553	1,558
Tivat	46	15,069
Tuzi	236	12,371
Ulcinj	255	20,191
Zabljak	445	3,081
Total	13,812	622,028

Source: MONSTAT

Each municipality's powers are granted to it by the Law on Local Governance and the Law on Local Government Finance (the "**Local Government Laws**"). Under the Local Government Laws, each municipality is responsible for its own financing, which comes from various sources, such as municipal taxes and tariffs, property sale taxes, and subsidies from the Budget.

In accordance with the Constitution and the Local Government Laws, each municipality may conduct the following activities:

- prepare development plans;
- establish programmes for certain activities such as utility and transport infrastructure, land development, tourism and sport;
- develop spatial and other plans;
- provide and execute local government budgetary measures;
- set up plans for investment in local infrastructure; and
- perform any other actions within its competencies.

Municipalities are also stakeholders in local utility companies providing water and waste services as well as public services such as firefighting.

International Relations

Montenegro's relationship with the international community

EU

Montenegro's full membership in the EU is a key strategic goal of the Government. In July 2009, Montenegro received the Questionnaire of the European Commission (the "**Questionnaire**") as a next step towards full membership of the EU. After responding to the Commission's initial questions (673 in total), Montenegro subsequently answered 74 additional questions in the Questionnaire and submitted it to the Directorate General for Enlargement on 12 April 2010. The country's EU Stabilisation and Association Agreement (the "**SAA**") became effective on 1 May 2010, which created an institutional framework for co-operation between Montenegro and the EU and resulted in the establishment of a Stabilisation and Association Council, a Stabilisation and Association Committee, seven sub-committees and a Parliamentary Stabilisation and Association Committee. Since then, Montenegro has continued to implement its obligations under the SAA. The Stabilisation and Association Council, Stabilisation and Association Committee and sub-committee meetings are held annually, while the stabilisation and association meetings between representatives of the European Parliament and the Montenegrin Parliament are held bi-annually. Members of the Joint Consultative Committee, which includes representatives from the EU Committee of the Regions and Montenegro's local authorities, were appointed in March 2012. A Civil Society Joint Consultative Committee, which consists of representatives of the European Economic and Social Committee and civil society organisations of Montenegro, held its inaugural meeting in October 2012.

On 17 December 2010, the European Council recognised Montenegro's progress by granting it candidate country status. In December 2011, the European Council launched the accession process with a view to opening negotiations in June 2012. The accession negotiations with Montenegro commenced on 29 June 2012. Until 2014, Montenegro was the only country in the Western Balkans involved in accession negotiations with the EU. Serbia commenced accession negotiations in January 2014. In March 2020, the EU gave its formal approval to begin accession talks with North Macedonia and Albania. However, Bulgaria vetoed the decision to open the EU accession negotiations with North Macedonia in November 2020.

The process of harmonisation with the EU *acquis* (the legislation and court decisions which constitute the body of EU law) has to take place prior to Montenegro's accession to the EU. The *acquis* is divided into 35 chapters for the purposes of negotiations between the EU and the candidate member states, of which only 33 chapters are applicable to Montenegro. In order to meet the EU accession criteria, each chapter is screened by the European Commission, following which negotiations with respect to each chapter are opened and continue until resolved, at which point the chapter is considered to be closed.

The screening of the chapters on Science and Research, Education and Culture, Judiciary and Fundamental Rights, and Justice, Freedom and Security was completed in 2012, while the screening for the remaining chapters was completed in June 2013. As part of this process, the European Commission and Montenegro reviewed Montenegrin laws to determine what differences exist between them and existing EU directives. Screening reports have been prepared by the European Commission for all chapters which provide guidance for further planning of the process of alignment of Montenegrin legislation with EU laws and the integration process as a whole. The screening meetings have been completed and the Government has received reports for all screening chapters. Within the framework of the accession negotiations, the entire screening process was completed in May 2014. Based on the results of the screening, the Government adopted its Accession Program of Montenegro to the European Union 2014-2018, which was followed by the 2018-2020 Accession Program. In order to be able to define in a strategic, comprehensive and clear way the commitments, scope and dynamics of the reforms that are necessary for further adjustment of Montenegro to EU *acquis*, the 2019-2020 Accession Programme of Montenegro to the European Union was adopted in January 2019. In February 2020, the new 2020-2022 Accession Programme of Montenegro to the European Union has been adopted with the aim of streamlining the commitments in the coming years to allow (or facilitate) more balanced negotiations and enable the fulfilment of the commitments set in the European agenda.

As of 26 November 2020, Montenegro has opened and provisionally closed three negotiating chapters, with a further 30 chapters opened.

Between 2012 and 2018, Montenegro opened and provisionally closed Chapter 25 (*Science and Research*), Chapter 26 (*Education and Culture*) and Chapter 30 (*External Relations*). Negotiation chapters are provisionally closed by the EU if the candidate country's adoption of the EU *acquis* and its degree of implementation are seen as sufficient. At the end of the negotiation process, all chapters are subject to reassessment after which they are ultimately closed. There are two reasons for this procedure. First, as the negotiations take place over many years, significant changes might occur in the EU *acquis* during the negotiations and the candidate country is expected to adjust to these changes. Second, the candidate country's degree of harmonisation in the provisionally closed chapter might have deteriorated.

Chapter 5 (*Public Procurement*), Chapter 6 (*Company Law*), Chapter 20 (*Enterprise and Industrial Policy*), Chapter 23 (*Judiciary and Fundamental Rights*) and Chapter 24 (*Justice, Freedom and Security*) have been open since 18 December 2013, while Chapter 7 (*Intellectual Property Rights*) and Chapter 10 (*Information, Society and Media*) have been open since 31 March 2014. Chapter 4 (*Free Movement of Capital*), Chapter 31 (*Foreign, Security and Defence Policy*) and Chapter 32 (*Financial Control*) have been open since 24 June 2014. On 16 December 2014, Montenegro opened an additional four chapters: Chapter 18 (*Statistics*), Chapter 28 (*Consumer and Health Protection*), Chapter 29 (*Customs Union*) and Chapter 33 (*Financial and Budgetary Provisions*). On 30 March 2015, two negotiating chapters were opened: Chapter 16 (*Taxes*) and Chapter 30 (*External relations*), which, in particular, was subsequently provisionally closed on 20 June 2017. On 22 June 2015, two negotiating chapters were opened: Chapter 9 (*Financial Services*) and Chapter 21 (*Trans-European networks*). On 21 December 2015, Chapter 14 (*Transport policy*) and Chapter 15 (*Energy*) were opened. On 30 June 2016, Chapter 12 (*Food safety, veterinary and phytosanitary policy*) and Chapter 13 (*Fisheries*) were opened. On 13 December 2016, Chapter 11 (*Agriculture and Rural Development*) and Chapter 19 (*Social policy and employment*) were opened. Chapter 1 (*Free movement of goods*) and Chapter 22 (*Regional policy and coordination of structural instruments*) were opened on 20 June 2017. Chapter 2 (*Freedom of movement for workers*) and Chapter 3 (*Right of establishment and freedom to provide services*) were opened on 11 December

2017. Chapter 17 (*Economic and monetary policy*) was opened on 25 June 2018, Chapter 27 (*Environment and climate change*) was opened on 10 December 2018 and the last Chapter 8 (*Competition policy*) was opened on 30 June 2020.

On 19 February 2015, the Government adopted its revised action plans for Chapter 23 (*Judiciary and Fundamental Rights*) and Chapter 24 (*Justice, Freedom and Security*) that were developed together with the European Commission (previously adopted in October 2013). In July 2016, the Government adopted an operating document for the prevention of corruption in vulnerable areas as an annex to the action plan for Chapter 23 (*Judiciary and Fundamental Rights*). Under the new approach in negotiations with the European Commission, Montenegro was obligated to submit implementation reports on action plans every six months to the European Commission. Since their adoption in June 2013, Montenegro has regularly reported to the European Commission on the implementation of action plans for negotiation chapters 23 and 24. The last semi-annual report on the implementation of action plans for chapters 23 and 24 was adopted on 31 January 2019. As the largest part of the action plans and the interim benchmarks are outdated and do not correspond to the priorities of the current phase of the negotiation process on Chapters 23 and 24, and considering that the revision of these documents was postponed, the Office for European Integration consulted the European Commission on the manner of reporting that would be most appropriate for the current stage of the accession negotiations. As a result of these consultations, Montenegro has continued to periodically report to the European Commission on the achieved results in the form of responding to an EC questionnaire (August 2019) or through reports on the implementation of the specific interim benchmarks that need to be monitored continuously (February 2020, July 2020).On 6 October 2020, the European Commission published the Montenegro 2020 Report. This was the eighth progress report on Montenegro since the country opened accession negotiations with the EU in June 2012. In the Montenegro 2020 Report, it was stated that a track record of investigations, prosecutions and final convictions in cases of high-level corruption has been established. On fundamental rights, Montenegro made some progress and the legislative and institutional framework in the area of fundamental rights is now largely in place. In July 2020, the Law on Life Partnership of Same-Sex Partners was enacted by the Parliament, making Montenegro the first country in the region to regulate the status of same-sex couples. Montenegro is moderately prepared in the fight against organised crime, where some progress has been made, including in addressing the previous year's recommendations, in particular as regards the creation of a centralised bank account register, a stronger capacity and professionalism of the police and an increased number of on-going proceedings on asset confiscation. The initial track record on money laundering was further developed, and the country continued to show gains in the fight against human trafficking. Additionally, the Status Agreement between the European Union and Montenegro on actions carried out FRONTEX was ratified by both sides and entered into force on 1 July 2020. Montenegro became the second country (after Albania) to conclude such an agreement with the EU, and this agreement paves the way for closer cooperation between Montenegro and FRONTEX, including more opportunities for the implementation of good EU practices. The institutions in charge of ensuring the rule of law have quickly adapted to the new extraordinary circumstances caused by COVID-19, and these specific conditions have not affected their work. Furthermore, Montenegro has continued to make progress in fulfilling the economic criteria for membership in the EU, while alignment and preparation for the implementation of the *acquis communautaire* has taken place in most areas.

The timing of Montenegro attaining full membership of the EU will depend on a number of economic and political factors relating to both Montenegro and the EU. On 6 February 2018, the EU adopted its EU-Western Balkans strategy, which set out certain indicative steps which Montenegro will need to complete in order to potentially be ready for EU membership by 2025. This EU strategy states that accession in 2025 will ultimately depend on strong political will, the delivery of real and sustained reforms, and definitive solutions to disputes with neighbours. Although it is not possible to guarantee EU accession or to predict the exact date of accession to the EU, the Government believes that progress has been achieved in opening negotiation chapters and Montenegro's timelines in meeting opening, interim and closing benchmarks. On 6 February 2020, the

Government adopted the Programme of Accession of Montenegro to the EU 2020-2022, which sets out the strategic and administrative negotiation framework and monitors compliance of the negotiation process. See "*Risk Factors—Risk Factors Relating to Montenegro—Montenegro may not become a member of the EU in the near to medium term or at all, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes*".

During 2020, Montenegro was also supported by the EU in facing the consequences of the COVID-19 pandemic, with €53 million which were reallocated for this purpose from IPA II programmes. Montenegro is also benefiting from regional IPA II programmes, Western Balkans Investment Framework, but has also applied for the EU Solidarity Fund for assistance due to COVID-19 consequences. Through the programme of Support to COVID-19-affected countries, the European Commission and Montenegro entered into a financing agreement in the amount of €60 million. This loan arrangement was given to Montenegro through the Macro-financial assistance Programme. The first tranche of €30 million was drawn in 2020, and the second tranche will be drawn in 2021. The tenor of the loan is 15 years and will be repaid as a bullet payment. In addition, in 2020, the Ministry of Finance and the IMF entered into a financing agreement in the amount of SDR 60.5 million (approximately €74 million) utilising the IMF's Rapid Financing Instrument. The Ministry of Finance obtained this financing as a response to COVID-19.

North Atlantic Treaty Organisation

Montenegro became the 29th member state of the North Atlantic Treaty Organisation ("**NATO**") on 5 June 2017. This event is considered the most notable foreign policy milestone for Montenegro since the restoration of its statehood.

Formal relations between NATO and Montenegro started with the signing of the Framework Document of the Partnership for Peace in 2006. In December 2009, Montenegro was invited to submit its Membership Action Plan ("**MAP**"). After five MAP cycles, Montenegro attended the NATO Summit in September 2014, and was invited to begin intensive and focused talks ("**IFT**") towards membership. After successfully completing reforms in four key areas encompassed by the IFT, including the rule of law, public support, defence and security sector reforms, Montenegro was invited to become a member of NATO on 2 December 2015. The formal accession talks to enter the alliance were completed in March 2016. Subsequently, member states signed the Accession Protocol of Montenegro to NATO at the NATO Foreign Ministerial Meeting in May 2016, which marked the beginning of the ratification process. Montenegro ratified the North Atlantic Treaty on 26 April 2017 and the ratification of the Accession Protocol was completed on 5 June 2017. Montenegro joined NATO on 5 June 2017, when the instrument for its accession to the North Atlantic Treaty was deposited with the U.S. State Department.

Montenegro's NATO membership is considered as an important condition for economic development and the attraction of foreign investment. It also provides a long-term commitment that the values of NATO, including peace, stability, democracy, human rights, the rule of law and the market economy, will be adhered to and promoted in Montenegro. Further, Montenegro intends to continue to increase its defence budget (targeting 2 per cent. of its GDP output on defence by 2024) and to contribute to NATO activities, missions and operations, thereby sharing the responsibility for European and global peace and stability.

World Trade Organisation

Montenegro became a full member of the World Trade Organisation in April 2012.

Other

Montenegro is also a member of various other international institutions and organisations. In 2006, Montenegro became a member of the United Nations, the Organisation for Security and Co-operation in Europe and the

European Bank for Reconstruction and Development (the "**EBRD**"). In 2007, Montenegro became a member of the World Bank, the International Monetary Fund (the "**IMF**") and the Council of Europe.

Montenegro and regional relationships

Regional co-operation and good neighbourly relations form an essential part of Montenegro's process of joining the EU. Montenegro continues to be strongly involved in developing regional co-operation. It is also continuing to actively participate in regional initiatives, including the South East European Cooperation Process, the Regional Cooperation Council, the Central European Free Trade Agreement ("**CEFTA**"), the Energy Community Treaty and the European Common Aviation Area Agreement. Further, Montenegro continues to preside over important regional mechanisms such as the Central-European Initiative and the Western Balkan Fund. Montenegro continues to maintain good bilateral relations with other countries being considered for prospective EU membership (the "**Enlargement Countries**"), which comprise Albania, the Republic of North Macedonia, Iceland, Serbia and Turkey, and with EU member state Italy.

On 15 May 2019, Montenegro, Bosnia and Herzegovina and Serbia signed the protocol about the positions of the tripoint border. The protocol demonstrates a strengthening of co-operation between the three countries.

Montenegro participated in the fourth Western Balkans Investment Summit (the "**Summit**"), which took place in London on 26 February 2020. The Summit was hosted by the EBRD, which is a leading institutional investor in the Western Balkans. The Montenegrin delegation which attended the Summit, was headed by Montenegro's former Prime Minister, and met with leading figures in both business and politics. Discussions were had on investments, regional and cross-border projects and business opportunities in the Western Balkans region. The Summit drew Prime Ministers from six Western Balkans countries, namely Montenegro, Albania, Bosnia and Herzegovina, Kosovo, the Republic of North Macedonia and Serbia (the "**Western Balkan Six**").

At the Western Balkans Investment Summit held in August 2015, it was announced that European financial institutions such as the European Investment Bank ("**EIB**"), the EBRD and the German Development Bank *Kreditanstalt fur Wiederaufbau* ("**KfW**") would grant approximately €200 million for 10 transport and energy infrastructure projects in six Western Balkan countries, including Montenegro. Montenegro received funding for two projects: (i) €25 million for construction of the grid section of the Trans-Balkan Electricity Corridor between Montenegro and Serbia, the agreement for which was signed in July 2016, and (ii) €20 million for the upgrade of the railway between Bar and Vrbnica, the agreement for which was signed in March 2017. These projects are currently under implementation. Further, in 2019, KfW allocated €20 million in funds for the Chamber of Investment Forum of the Western Balkan Six through the so-called "Regional window". The funds will be used to develop vocational education in Montenegro. KfW is an important partner for Montenegro in financing and implementing a large number of projects, primarily in the fields of infrastructure, energy, waste-water management and sustainable development as well as in the banking sector.

Italy

Italy is one of the most significant foreign partners of Montenegro and NATO ally country. Montenegro and Italy have entered into a number of agreements in several areas of co-operation and the two countries co-operate closely through the implementation of joint projects within the framework of numerous regional initiatives. Italy strongly supports the European integration of Montenegro, especially through intensive inter-parliamentary communication. On 5 July 2016, the Italian Industrial Association of Montenegro (ASSIIMONT) headquarters was officially inaugurated in Podgorica. On 20 April 2018, the "Confindustria Montenegro", an association of Italian industrialists in Montenegro, was formally launched with the signing of a cooperation agreement between the Chamber of Economy of Montenegro and Confindustria. The Confindustria was established with the aim of becoming the reference point for Italian entrepreneurs seeking business opportunities in Montenegro.

On 15 November 2019, a 432km underwater electricity transmission cable between Montenegro and Italy (the "**MONITA Underwater Cable**") was completed. As electricity prices in Italy are generally higher than in Montenegro, the MONITA Underwater Cable allows Montenegrin energy generation companies to export electricity to customers in Italy. Additionally, the project enables Montenegro to act as a regional hub for energy, transporting electricity generated in other countries to customers in Italy. For more information, see "*The Economy—Energy production—Other Energy Projects— MONITA Underwater Cable*".

Serbia

Montenegro's relationship with Serbia is of great importance, particularly in the context of regional co-operation. Serbia has been one of Montenegro's largest trading partner by value in recent years. The Ministry of Economy of Montenegro and the Ministry of Regional Development and Local Self-government of Republic of Serbia signed a memorandum of understanding in April 2014 in relation to the exchange of expertise in respect of regional development. The memorandum further related to the use of Instrument for Pre-accession Assistance (the "**IPA**") funds, the exchange of expertise on capacity building and the establishment of business infrastructure. In addition, a memorandum of understanding and co-operation on protection of competition was signed in June 2015 by the Agency for Protection of Competition of Montenegro and the Commission for Competition Protection of Republic of Serbia. In February 2017, an agreement on co-operation in education was signed by both countries. The Ministry of Sustainable Development and Tourism of Montenegro and the Ministry of Trade, Tourism and Telecommunication of Republic of Serbia signed a memorandum on co-operation in Tourism in February 2017. Further agreements on economic co-operation and the reciprocal promotion and protection of investment between Montenegro and Serbia will be required to facilitate the efficient economic co-operation between the two countries.

Croatia

Bilateral relations between Montenegro and Croatia are strong and positive. The two countries co-operate in several areas of mutual interest. The most important co-operation between Croatia and Montenegro in recent years has been in achieving regional stability and security. As an EU and NATO member, Croatia provides valuable support with the European integration process and offers consistent support throughout the integration process to NATO, which ultimately resulted in Montenegrin accession to the Alliance in 2017. Croatia and Montenegro have also had successful cooperation within regional security initiatives. However, economic co-operation has stagnated in recent years, including in the area of bilateral trade as Croatia has not been among Montenegro's top three trading partners since 2014. The agreement between Montenegro and Croatia on economic cooperation was signed on 19 February 2013. The two countries also signed an agreement on mutual enforcement of court decisions in criminal matters and a memorandum on co-operation in the area of health care. In February 2013, additional agreements on economic co-operation and co-operation in the tourism sector were signed. Since 2013, several bilateral agreements and protocols have been entered into between Montenegro and Croatia, including agreements on social insurance (signed in 2013), agreements on co-operation in environmental protection (signed in 2014), a memorandum of understanding on co-operation in sports (signed in 2015), a protocol on police co-operation during the summer tourist season (signed in 2014), and a protocol on searching for missing people (signed in 2017). On 11 January 2018, the Government adopted the proposal for the establishment of the joint committee for tourism between Montenegro and Croatia. The "Days of Montenegro in Zagreb-Creative Montenegro" project was held in the period between 5 and 13 February 2019. This project is the largest economic and cultural promotion of Montenegro abroad, through the Montenegrin diplomatic and consular network.

Albania

Relations between Montenegro and Albania have historically been, and continue to be, friendly. Co-operation is at an all-time high with no outstanding issues between the two countries which represents a good basis for further development of co-operation in the areas of mutual interest. Further, Albania and Montenegro have robust cooperation within NATO and the regional security initiatives.

The two countries have diversified co-operation in the field of energy, particularly in electricity and gas. The electricity network of Montenegro is connected to the electricity network of Albania through the 220 kW Podgorica-Skadar long-distance power line, and a 400 kW long-distance overhead power line between Podgorica and Tirana. The Ionian-Adriatic gas pipeline, with a total length of 530 kilometres, will connect Fiero (Albania) with Split (Croatia), passing through 94 kilometres of Montenegro. The two countries' co-operation will be further enhanced after completion of two additional planned projects: the reconstruction and modernisation of the railway line from Podgorica to Tuzi to the border crossing with Albania and the construction of the Adriatic-Ionian Expressway along the Montenegrin coast, which will connect Croatia, Montenegro, Albania and Greece.

Bosnia and Herzegovina

Relations between Montenegro and Bosnia and Herzegovina are friendly and comprehensive, strengthened by common European and Euro-Atlantic goals and regional context. The signing of the state border treaty between Montenegro and Bosnia and Herzegovina is an exemplary agreement for how border issues in the region could be addressed. Agreements have been signed in various fields of co-operation, including international transport, mutual protection of classified information, extradition, legal aid and enforcement of court decisions. In August 2015, Montenegro and Bosnia and Herzegovina signed a border demarcation agreement, ending the dispute over the Sutorine area and confirming their commitment to good neighbourly relations. In terms of economic cooperation, Bosna and Herzegovina is one of Montenegro's most important trading partners, Bosnia and Herzegovina was Montenegro's third largest trading partner in exports in 2019 and the ten months ended 31 October 2020. The joint crossing between Montenegro, Bosnia and Herzegovina (Vraćenovići-Deleuša) was officially opened on 20 October 2020. The signing of the harmonised annexes to the Agreement between the Government of Montenegro and the Council of Ministers of Bosnia and Herzegovina on conducting border checks at joint crossings and the Agreement on Amendments to the Agreement between the Government of Montenegro and the Council of Ministers of Bosnia and Herzegovina on border crossings for border traffic, that was supposed to take place during the official opening ceremony of the above mentioned joint crossing, was postponed due to COVID-19 related issues.

Kosovo

Montenegro continues to maintain good relations with Kosovo. The two countries share common foreign policy goals and economic co-operation is continually growing. Negotiations between the two countries are underway in a number of areas, including judicial, economic and tourism sector co-operation. In August 2015, Montenegro and Kosovo signed a border demarcation agreement, confirming their commitment to good neighbourly relations. In March 2018, Kosovo's parliament ratified the proposed border agreement, which came into effect in 2018. In addition, business network links have strengthened in recent years as a result of various organised business forums.

Republic of North Macedonia

Relations between Montenegro and the Republic of North Macedonia are strong and there are no open or unresolved issues between the two countries. Montenegro strongly supported North Macedonia's bid for NATO membership. Bilateral relations are developing through ongoing political dialogue, visits between government officials as well as substantive co-operation in all areas. In order to enhance economic cooperation, on 9 May 2018, the Business Forum of Macedonian-Turkish and Montenegrin companies was held. The meeting was organised by the Ministry of Foreign Affairs (Embassy of Montenegro in North Macedonia), Chamber of Economy of Montenegro, the Union of Employers of Montenegro and the Macedonian-Turkish Chamber. In

November 2019, the Republic of North Macedonia organised touristic and cultural promotion of the Capital City of Podgorica in Skoplje.

Turkey

Montenegro and Turkey maintain friendly and constructive relations characterised by dynamic economic cooperation and high-level political dialogue. The two countries have entered into over 30 inter-governmental agreements, governing relations and co-operation in areas such as economy, defence, health, education, agriculture and others. Turkey is also an important NATO ally.

Various activities were undertaken in recent years to strengthen the economic ties between Montenegro and Turkey, including annual meetings of a joint committee for economic co-operation. The most recent meeting was held in Podgorica in October 2019, during which a mutually organised business forum took place, and a memorandum on cooperation between Chamber of Economy of Montenegro and the Turkish Körfez district was signed. Further, in July 2019, Montenegro and Turkey signed the Turkey-Montenegro Revised Free Trade Agreement Protocol with the aim of developing cooperation and investment opportunities in bilateral trade and investments between the two countries. In 2018, Turkey was the 6th largest investor in Montenegro, based on total inflow of FDI and in 2019, Turkey was the tenth largest investor in Montenegro. Despite the impact of the COVID-19 pandemic investors from Turkish have continued to invest in Montenegro, particularly in tourism, infrastructure, energy, agriculture and agro-industry, wood processing and textiles. Most of these investments are related to the less developed northern region of Montenegro which is rich in natural resources. Since 2007, the International Co-operation and Development Agency of Turkey has implemented more than 3,060 development projects in Montenegro, worth over €15 million, in the sectors of education, health, cultural co-operation, agriculture and infrastructure.

Russia

Political relations between Montenegro and Russia have deteriorated following Montenegro's formal accession to NATO. Montenegro has joined the sanctions imposed by the EU on the Russian Federation and would implement such future sanctions (as needed) as if it were an EU member state. This has affected economic ties and general relations between the two countries. Trade turnover for the ten months ended 31 October 2020 amounted to approximately €6.9 million (compared to €11 million in 2019 and €9.4 million in 2018). In April 2017, Russia imposed a ban on the import of wines from a leading Montenegrin wine producer, which has had a negative impact on trade. Although the producer challenged the ban with the relevant Russian authorities in 2018, it has not received a response in relation to its appeal. In 2020 intensive communication with the relevant state bodies of the Russian Federation on finding a mutually beneficial solution regarding the resumption of wine export to Russia has continued In the current year, due to the global COVID-19 pandemic, the number of Russian tourists in Montenegro (arrivals and overnights) has significantly decreased the total inflow of FDI from Russia to Montenegro, which amounted to €42,5 million between January and August 2020 (compared to €69.9 million during the same period in 2019). In 2020, Montenegro and the Russian Federation progressed towards normalising bilateral relations and a number of initiatives were proposed to improve cooperation between Montenegro and the Russian Federation, particularly in the fields of culture and tourism.

Austria

Montenegro and the Republic of Austria have excellent co-operation and a dynamic political dialogue. The Republic of Austria strongly supports the European integration of Montenegro, through the provision of direct technical support, as well as by raising awareness among other members of the importance of strengthening the EU's enlargement policy. An action plan between the two countries, which defines a wide range of co-operation, is signed annually, and establishes a significant number of bilateral activities and co-operation in the areas of foreign policy, defence, science, education, culture and sustainable development. During 2018, various activities aimed at strengthening economic co-operation between the two countries took place. In particular, the

15th Jubilee Vienna Economic Forum – Vienna Future Dialogue 2018 conference was organised by the Vienna Economic Forum which included the participation of prime ministers from the Western Balkans, including the Prime Minister of Montenegro. The conference focused on various important aspects of regional cooperation as a part of the European integration. In 2019, Austria made more than €6 million worth of investments in various sectors in Montenegro, while in the first nine months of 2020 more than €8 million of investments were made.

THE ECONOMY

Background

Comprehensive economic reforms in Montenegro and economic development based on the principles of private ownership, free markets, openness to trade, the free flow of capital and competitive tax policies contributed to growth in the country's GDP of approximately 7.5 per cent., on average, per annum in real terms between 2006 and 2008. Montenegro's declaration of independence in June 2006 also had a positive impact on economic growth. However, following the global financial and economic crisis between 2008 and 2009, Montenegrin GDP contracted by 5.8 per cent. in 2009. Montenegrin GDP then grew by 2.7 per cent. and 3.2 per cent. in 2010 and 2011, respectively, contracted by 2.7 per cent. in 2012 and grew by 3.5 per cent., 1.8 per cent. in 2013 and 2014 and 3.4 per cent. in 2015, respectively, in each case in real terms. In 2016 and 2017, Montenegrin GDP grew by 2.9 per cent. and 4.7 per cent., respectively, in each case, in real terms, and grew by 5.1 per cent. in 2018 in real terms. Strong economic growth continued in 2019, with a real growth rate of 4.1 per cent. compared to 4.2 per cent. in Serbia, 2.2 per cent. in Albania, 4.1 per cent. in Romania, 3.55 per cent. in north Macedonia and 2.9 per cent. in Croatia.

In 2020, the economic performance of Montenegro along with many other countries has been impacted by the COVID-19 pandemic. COVID-19, which was first identified in Wuhan, Hubei Province, China in late 2019 and has continued to spread in many countries (including Montenegro) around the world, leading the World Health Organisation to declare the outbreak of this communicable disease as a global pandemic on 11 March 2020. The Government of Montenegro implemented a number of measures over the course of 2020 to combat the spread of the virus as well as to support the economy. As of 29 November 2020, the total number of active COVID-19 cases recorded in Montenegro was 10,910. In the six months ended 30 June 2020, nominal GDP was €1,813.6 million and GDP declined by 10.3 per cent. in real terms. Due to the effects of the COVID-19 pandemic, the Government expects the nominal GDP to decline to €4,279.0 million in 2020, compared to €4,951.0 million in 2019, and the real GDP to decline by 14.2 per cent. by the end of 2020. Investors are cautioned that the estimated information as to GDP for the full year 2020 is based on the latest available indicators as at 30 June 2020. Balance of payments data for 30 September 2020 indicates a potentially greater decline in GDP for the full year 2020 than the foregoing estimates. The expected decline in 2020 GDP for Montenegro is similar to the projections of relevant international organisations. The IMF estimated a real GDP decline of 12 per cent., while the World Bank estimated a 12.4 per cent. decline and the European Commission projected a decline of 14.3 per cent. As a result of a decline in revenues and increased spending, the general government budget deficit for 2020 is expected to amount to 10.6 per cent. of GDP, while the country's general government debt to GDP ratio is expected to increase to 88.6 per cent. of GDP from 76.54 per cent. of GDP at the end of 2019. The projection for the general Government debt at end of 2020 does not include the proposed offering of the Notes.

Going forward, the principal objectives for Montenegro include EU accession, further restructuring and reforming of the public sector and State administration, reducing the level of government debt relative to GDP, developing sustainable pension and health systems, reforming the judicial system, enacting labour market reforms and further improving the overall business environment. Many of Montenegro's recent and planned reforms are designed to harmonise with relevant EU standards.

Montenegro was ranked 50 out of 190 countries in the 2020 World Bank's Doing Business Survey, which is the same ranking Montenegro received in the 2019 World Bank's Doing Business Survey. As a result, the Government has developed an action plan to improve in five of the indicators measured by the 2019 World Bank's Doing Business Report ("starting a business", "dealing with construction permits", "getting electricity", "registering property" and "paying taxes").

According to the World Economic Forum's Global Competitiveness Index 2019, which assesses the economic competitiveness of 141 countries, Montenegro ranked 73rd, two rank lower as compared to the 2018 report.

The Government is dedicated to improving the business environment in Montenegro and its overall competitiveness to attract further international investment. In addition to establishing institutions such as the Competitiveness Council, the Government has implemented various measures aimed at improving the efficiency of state administration. See "*Public Finance*". Such measures also intend to reduce costs and shorten the duration of administrative procedures. For example, the Government has established an electronic portal that allows businesses and individuals to access numerous state and local government services. The electronic portal currently provides 249 e-services by 31 government institutions. Montenegro's Ministry of Finance has utilised e-services to simplify the process for registering companies, which are now able to submit registration applications electronically, without the need for physical service counters. To promote infrastructure and real estate investment, the Government adopted the Act on Spatial Development and Construction, a new law relating to planning and construction, which came into effect on 14 October 2017. The new law removed certain barriers which have hindered spatial development, such as the requirement of establishing public interest in expropriation proceedings, as well as the need for construction and operational permits other than for complex engineering works. Under the previous legislation, both the Government and local authorities were responsible for enacting planning documents, resulting in over 600 individual planning documents. By contrast, the new legislation requires only two planning documents with land use planning now centralised in the Government. See "*—Economic Developments and Trends—Economic reforms*" below.

The Government has taken further steps to introduce efficiencies at the local level. In May 2016, Montenegro joined the Certification Program for Municipal Economy in South East Europe ("**BFC SEE**"). The BFC SEE gives municipalities clear guidelines on how to create a positive business climate and introduce internationally recognised standards for efficient and transparent local administration.

The International Finance Corporation and the Government undertook a Regulatory Impact Assessment ("**RIA**") project to assess the country's existing regulatory framework and make recommendations as to what aspects of regulation can be simplified and streamlined. The RIA is a method used during the adoption of new legislation or amendment of existing legislation and involves a consultative process with all stakeholders. This process is conducted before the adoption or amendment of new legislation and is based on documents that indicate costs and benefits of the law's implementation or amendment. Following the completion of the RIA project, the Government conducted a set of training programmes for civil servants and in April 2011 adopted a handbook on RIA implementation. Since 1 January 2012, the RIA method has been mandatory for the implementation or amendment of legislation in Montenegro, and between 2012 and 2018, Montenegro's Ministry of Finance has opined on over 2,000 draft pieces of legislation from a budgetary and economic perspective.

Reform efforts in the labour market, public administration and legislation have contributed to the improvement of the overall business climate in Montenegro in recent years. Efforts aimed at enhancing the protection of property rights, streamlining legal and administrative procedures, and reducing backlogs at government offices continue to be important priorities, as they are not only expected to improve the business environment in Montenegro but are also important aspects of the EU accession process. See "*Montenegro—International Relations—Montenegro's relationship with the international community—EU*".

In January 2020, the Government adopted the Montenegro Economic Reform Programme 2020-2022 (the "**ERP**"), which sets out Montenegro's economic policy in the medium term. In addition to infrastructure projects, the ERP sets out a set of priority measures within the framework of structural reforms. See "*—Economic Developments and Trends—Economic reforms*" below.

In conjunction with its efforts to improve the country's overall business climate, the Government is committed to fighting corruption. According to the Council of Europe's Group of States Against Corruption fourth evaluation, published in 2020, since 2006, Montenegro has satisfactorily implemented a substantial majority of its recommendations.

Furthermore, the EU places significant importance on the development of a track record with respect to combating corruption and organised crime. For example, in connection with the implementation of Chapter 23 and Chapter 24 of the *acquis* as part of Montenegro's EU accession process, members of the European Parliament's Committee on Foreign Affairs submitted Amendments on the 2015 Report on Montenegro to the European Parliament in February 2016 calling for an investigation into alleged money laundering cases involving Prva Banka and expressing concerns over delays regarding the ongoing investigations into the privatisation of the state telecommunications company. The purchasers of the telecommunications company have since settled US Foreign Corrupt Practices Act charges in connection with the investigation and Montenegro continues to implement measures to address corruption, money laundering and organised crime to progress the negotiation of those chapters. Montenegro's aim is to align with the EU standards relating to corruption, by among other things, introducing new laws in criminal legislation. To that end, Montenegro has established the National Agency for Prevention of Corruption (the "**NAPC**"), and following the NAPC's investigations, 77 officials have resigned or been dismissed as a result of corruption allegations.

The following table shows Montenegro's ranking in the 2019 Transparency International Corruption Perceptions Index (the "**Corruption Perceptions Index**") as compared to other countries in the region. The Corruption Perceptions Index ranks 180 countries and territories based on how corrupt their public sector is perceived to be. A country or territory's score indicates the perceived level of public sector corruption on a scale of 0 to 100, where 0 means that a country is perceived as highly corrupt. A country's rank indicates its position relative to the other countries and territories included in the index.

Country/Territory	**Corruption Perceptions Index 2019 Score**	**Overall Rank**
Italy	53	21
Slovenia	60	35
Croatia	47	63
Montenegro	45	66
Bulgaria	43	74
Turkey	39	91
Serbia	39	100
Bosnia and Herzegovina	36	101
The Republic of North Macedonia	35	106
Albania	35	106

Source: 2019 Transparency International Corruption Perceptions Index

Coronavirus

The coronavirus known as COVID-19 which was first identified in Wuhan, Hubei Province, China in late 2019 has continued to spread in many countries (including Montenegro) around the world, leading the World Health Organisation to declare the outbreak of this communicable disease as a global pandemic on 11 March 2020.

The Government of Montenegro announced an initial round of precautionary measures on March 13 designed to reduce the risk of transmission of COVID-19. Subsequent measures have also been introduced including the suspension of non-essential businesses (with restrictions on retail and hospitality businesses), the banning of all public gatherings and instituting curfews. As these preventative measures were shown to be effective in decreasing the intensity of the pandemic, the Government began easing the measures instituted in March 2020. However, after the lockdown was eased in May, Montenegro experienced a second wave of COVID-19, resulting in increased numbers of confirmed cases, requiring the Government to re-implement curfews, restrictions on public gatherings and non-essential businesses. As in other countries, the number of new infections have accelerated in Montenegro since early October and as of 29 November 2020, the total number of active COVID-19 cases recorded in Montenegro was 10,910. At present, the extent of the impact posed by a third wave of COVID-19 is unclear as both the severity and magnitude of the ensuing economic consequences are currently unknown.

The new Government of Montenegro has announced a number of further COVID-19-related measures which include, among others (and in each case subject to certain specific exceptions):

- a ban on leaving residence from 7:00PM to 5:00AM the next day, subject to certain exceptions, including persons preforming services in the public interest and key workers such as those employed in the health system, inspection bodies, police, armed forces, fire services, utilities and media and other categories;
- a ban on inter-city passenger transport from 7:00PM on Friday to 5:00AM on Monday, except for certain categories such as motor vehicles performing activities essential for the transport of goods, supply and delivery of medicines, ambulance, utilities, supply of fuel and electricity, transportation of employees and other categories;
- a ban on presence and lingering of more than four adults together in open public places;
- prohibiting gatherings in residential buildings for persons who are not members of a joint family household;
- restrictions for companies engaged in the retail and fitness sector, including social distancing, disinfection and the use of personal protective equipment;
- a ban on athletic training and sports competitions other than professional athletes;
- a general ban on gatherings of the population in closed and open public places (i.e. public gatherings, public events, sports, political, cultural, artistic and private gatherings, weddings and other events); and
- the mandatory use of protective masks outdoors and indoors throughout Montenegro.

Economic Developments and Trends

Economic developments between 2016 and 2019

The following table shows the contribution to Montenegro's real GDP growth rate for 2016, 2017, 2018 and 2019.

	2016	**2017**	**2018**	**2019**
	(%, unless otherwise indicated)			
Gross fixed capital formation	7.7	4.6	3.9	(0.5)
Net exports..	(6.8)	(4.6)	(3.1)	0.7
Private consumption	4.2	3.0	3.4	2.2

	2016	2017	2018	2019
Public consumption	0.2	(0.3)	1.2	0.2

Source: MONSTAT

The following table shows the breakdown of Montenegro's gross fixed capital formation for 2016, 2017, 2018 and 2019.

	2016	2017	2018	2019
Gross fixed capital formation as per cent. of GDP..	24.7	26.9	29.2	27.3
Private Gross fixed capital formation (€ million)...	872.6	859.4	1,045.0	1,013.0
Public Gross fixed capital formation (€ million)...	105.9	298.0	318.0	338.8

Source: Ministry of Finance

The Montenegrin economy recorded 2.9 per cent. GDP growth in real terms in 2016. Industrial production was down 4.4. per cent. as compared to the previous year which was mainly due to a decline in the mining industry. Construction activity was strong in 2016, as the value of completed construction works increased by 31.5 per cent., while effective work hours on construction works increased by 16.7 per cent. compared to 2015. The rate of turnover in retail was 4.1 per cent. higher in current prices, and 2.4 per cent. higher in constant prices than in 2015. The tourism sector also recorded significant growth in 2016, with 1.8 million tourist arrivals and 11.25 million overnight stays**,** which represented growth of 5.9 per cent. and 1.8 per cent. growth, respectively.

In 2017, the Montenegrin economy recorded GDP growth of 4.7 per cent. in real terms. Montenegro's economic growth in 2017 was based on strong investment activity, a large increase in domestic demand, private consumption and substantial development in the export of services, primarily due to the tourism sector. On the expenditure side, household consumption contributed significantly to the economic growth, primarily due to the strong tourism season. Approximately 2.0 million tourists visited Montenegro in 2017 resulting in just under 12 million overnight stays, representing a growth of 10.3 per cent. and 6.3 per cent., respectively, compared to the previous year. According to the data of the Central Bank, foreign tourism revenues in 2017 were €921.7 million, an increase of 10.3 per cent. from the previous year. Increased employment and lending to households also contributed to the economic growth in 2017. Industry production declined by 4.2 per cent. due to lower electricity production caused by a long period of drought. The decrease in industry production was partially offset by a growth of 113.9 per cent. in mining and quarrying production. Construction recorded a significant increase in 2017 due to the realisation of major investment projects, such as highway construction, investments in local infrastructure, building new facilities for tourism, as well as investments in the energy sector. The value of completed construction works for 2017 increased by 51.5 per cent. while effective work hours increased by 24.5 per cent. compared to 2016. Turnover in retail recorded a 5.2 per cent. increase in current prices, and a 3.3 per cent. increase in constant prices, compared to the previous year.

In 2018, the Montenegrin economy experienced its highest growth since 2008, with GDP growth of 5.1 per cent. in real terms. The growth in GDP was driven by increased household consumption, significant employment growth, increased credit activity, record tourism revenues and growth in remittances from abroad. On the expenditure side, a contribution to the 2018 real GDP growth rate of 3.4 percentage points came from private consumption and due to significant employment growth, credit activity, tourism revenues and remittance from abroad. Increased investment activity focused on tourism, energy sector, the construction of the Bar-Boljare highway and other private and public projects, which resulted in the contribution of gross fixed capital formation of 3.9 percentage points. The contribution of exports of goods and services was 2.8 percentage points, while the negative contribution of imports of goods and service was 6.0 percentage points. Public consumption contributed 1.2 percentage points to the 2018 real GDP. On the supply side, the highest growth in 2018 was in construction, with an annual growth rate of 24.9 per cent. Industrial production increased by 22.4 per cent. due to growth in electricity production. Retail trade increased by 3.4 per cent. in real terms. The tourism sector also recorded significant growth with approximately 2.2 million tourist arrivals and 12.9 million overnight stays according to MONSTAT, which represents growth of 10.2 per cent. and 8.2 per cent., respectively, compared to 2017. According to the data from the Central Bank, tourism revenues exceeded €1 billion, an increase of 8.6 per cent., which was in line with projections for 2018.

Consumer prices in 2018 were dominated by rising oil prices and the changes in tax policy regulations. An increased final VAT rate, together with the increased excises on tobacco (which had been revised back in mid-July 2018), contributed to the yearly inflation rate. These changes in policy had a very limited impact on the inflation rate with a change of 1 percentage point between 2017 and 2018. The labour market in 2018 saw positive trends, with a 4.3 per cent. increase in the number of employed persons compared to 2017. The highest employment growth was recorded in construction (12.5 per cent.), transportation (6.8 per cent.) and tourism (6.6 per cent.). According to the Labour Force Survey, employment increased by 3.6 per cent. in 2018. The unemployment rate in 2018 was 15.2 per cent., the lowest level since 2006. The activity rate was at a record high of 56.0 per cent., up 1.3 percentage points compared to 2017.

In 2019, the Montenegrin economy continued to grow at a rate of 4.1 per cent. in real terms, with €288 million value added compared to 2018. The growth in GDP was driven by an increase in exports of goods and services due to high tourism revenues, with a positive contribution of 2.3 percentage points, and household consumption, which contributed 2.2 percentage points to GDP growth, due to strong employment growth, credit activity, particularly in the housing sector, and the growth of foreign remittances.

Investment activity moderately slowed in 2019 due to strong investment cycles which began in 2017, and resulted in the contribution of gross fixed capital formation of negative 0.5 percentage points to GDP growth. Negative contribution from imports of goods and services was negative 1.6 percentage points, which was offset by strong growth of exports of goods and services of 5.4 per cent. Consequently, net exports contributed 0.7 percentage points to GDP growth in 2019. Public consumption contributed 0.2 percentage points to the 2019 GDP in real terms.

Tourism revenues recorded a historic high of €1.1 billion in 2019, which was 9.7 per cent. higher compared to the previous year. The annual growth of arrivals and overnight stays in collective accommodation was 20.1 per cent. and 11.2 per cent., respectively. Notable structure largely contributed to realised overnight stays, in which the participation of tourists from Western Europe increased, with tourists from France, Germany and the UK collectively realising nearly a quarter of the total number of foreign overnight stays in collective accommodation facilities. In 2019, Montenegro was visited by approximately 2.65 million tourists which recorded 14.5 million overnight stays according to MONSTAT.

The continuation of increased growth of the Montenegrin economy in 2019 is the result of growth in the majority of economic sectors, where the most pronounced results, in addition to the mentioned tourism sector, were recorded by construction, transportation, trade and agriculture. The value of completed construction works in 2019 increased by 10.7 per cent. compared to 2018, passenger traffic at airports increased by 8.1 per cent. in the same comparative period, while turnover in retail trade recorded an annual growth of 6.0 per cent. Industrial production in 2019 declined due to lower production in the metal sector, as well as reduced production of electricity, which was unable to compensate for the decline from the first half of 2019 caused by adverse weather conditions. Sales and purchases of agricultural products, forestry and fisheries in 2019 increased by 0.5 per cent. compared to the previous year.

Inflation in 2019 was lower than estimated, mostly due to a decline in crude oil prices in the world markets, the redefined excise policy on tobacco products in the domestic market, a slight increase in wages and rising food prices. The average inflation in 2019 was 0.4 per cent.

In 2019, there were positive trends in employment and employability. According to the data from the Labour Force Survey for 2019, there was an active population of 287.3 thousand, of which 243.9 thousand were employed and 43.4 thousand were unemployed. The average unemployment rate in 2019 was 15.1 per cent. The number of employees compared to 2018 increased by 2.7 per cent.

Fiscal and Economic Response to COVID-19

The period before the outbreak of the COVID-19 pandemic in Montenegro was characterised by positive macroeconomic trends, as evidenced by the achieved rates of economic growth, employment and wage growth, as well as the successful consolidation of public finances. Real GDP growth rates of 4.7 per cent. in 2017, 5.1 per cent. in 2018 and 4.1 per cent. in 2019, resulted in historically low unemployment rates in 2019 of 15.1 per cent. (the lowest level since 2006). The positive trends in the labour market were also confirmed by the registered number of employees, which was 203,545 in 2019, an increase of 13,413 employees compared to 2018. Positive results recorded in nearly all economic sectors contributed to the level of growth which the Montenegrin economy has experienced over the last three years primarily due to construction, tourism and agriculture. Economic growth continued in the first quarter of 2020, as real GDP growth was 2.7 per cent. despite the introduction of measures aimed at protecting the health and well-being of Montenegro's population which limited economic activity.

In parallel, a comprehensive fiscal consolidation was carried out between 2017 and 2019 to ensure the stability and long-term sustainability of public finances. To that end, fiscal adjustment measures were implemented to ensure continuous growth of public revenues, which, along with the rationalisation of current spending, resulted in a reduction of the central government budget deficit from 5.8 per cent. in 2017 to below 3.0 per cent. in 2019. Comprehensive fiscal consolidation was implemented so as to minimise the negative impact on economic growth even under conditions involving large allocations for capital projects, such as the construction of the priority section of the Bar-Boljare Motorway. Despite the fiscal consolidation in the period 2017-2019, approximately €789.0 million was invested in capital projects. This successful fiscal consolidation led to more favourable borrowing conditions in the international capital markets, as evidenced by issuance of the Eurobonds in October 2019. These measures were positively received by the relevant international financial institutions, as evidenced by the two guarantees by the World Bank for €250 million commercial loans in 2018 and 2020 (Policy Based Guarantee 1 and Policy Based Guarantee 2) obtained based on development policies in the area of strengthening fiscal sustainability and financial sector resilience.

Positive economic trends were slowed when Montenegro faced an outbreak of the COVID-19 pandemic. In response to this outbreak, the Montenegro government enacted measures aimed at protecting the public health which resulted in an overall decline in economic activity due to suspensions and restrictions being placed on a significant number of economic entities.

In order to mitigate the negative effects of the COVID-19 pandemic to the economy, the Montenegro government has adopted three packages of measures (with additional measures adopted by the Central Bank, as described below).

The first package of economic measures was adopted on 19 March 2020, with a total value of €280.6 million, and was aimed at providing assistance to the most vulnerable categories of the population and increasing liquidity within the economy and the Budget. The first package of measures included the following key measures:

- deferral of payments of personal income tax and social security contributions and obligations under the Law on Reprogramming Tax Claims;
- establishment of a new credit line at the Investment Development Fund (in the amount of €120.0 million) for those sectors of the economy most severely affected by the restrictions on operations;
- payment of one-time financial assistance to low-income pensioners and social welfare beneficiaries in the amount of €50.0 each;
- an increase of wages for healthcare sector employees by up to 15 per cent.;
- advance payments to contractors for capital projects to ensure continuity of works and completion;
- the deferral of lease payments for state-owned real estate; and
- postponement of all non-mandatory expenditures by budget spending units and state-owned companies in order to ensure the liquidity of the Budget.

The second package of economic measures was approved on 24 April 2020 (and concluded in June 2020), with a total value of €39.2 million and was targeted at preserving employment rates and enabling economic recovery, and included additional measures aimed at strengthening liquidity in the economy. The second package included the following measures:

- direct subsidies for employee salaries, whereby the amount of subsidies provided (50-100 per cent. of gross minimum wage) was determined on the basis of whether an economic entity, as a beneficiary of subsidies, was affected by restrictions and to what extent (i.e. whether the entity closed or was at risk of closing). Tourism and agriculture as strategic branches of the Montenegrin economy were specifically targeted. Salary subsidies also included employees who were unable to work due to childcare needs for children under the age of 11, employees who have had to self-isolate or were quarantined, as well as salary subsidies for the newly employed workers in the SME sector;
- continuous financial support through favourable credit lines of the Investment Development Fund;
- shortening deadlines for VAT refunds and extensions of the custom guarantee limit for deferred payment of customs debt;
- energy firms exempting the fixed portion of electricity bills for businesses that have stopped operating due to the COVID-19-related lockdown and the state utility EPCG doubling its electricity subsidies for vulnerable households;
- assistance for the agriculture and fisheries sector, including one-off assistance for fishermen and payments for the contributions of insured agricultural workers; and
- one-time assistance of €50 to persons recorded as unemployed in the Employment Agency of Montenegro and for an additional category of pensioners which was not covered by the first set of measures.

The third package of economic measures was adopted on 23 July 2020, and comprises both short-term and long-term measures aimed at the recovery of the Montenegrin economy and the creation of conditions which provide further development through diversification of the economy and increased domestic production. The short-term measures (amounting to €82.7 million) are primarily aimed at providing continued support to the economy through wage subsidies (subsequently extended for the months of October and November of 2020) to those sectors of the economy that are most affected, as well as providing favourable credit lines (interest subsidies) in cooperation with commercial banks. Other short-term measures include: the reduction of VAT from 21 per cent. to 7 per cent. in the hospitality industry, programs for improving competitiveness, and one-off support for pensioners. Long-term measures are intended to create conditions for increased competitiveness of the economy, primarily in the tourism, agriculture and fisheries sector, energy, transport and information technology industries. The third package will be implemented over a four-year period, with an estimated total value of approximately €1.2 billion, including investment projects in the key sectors of the economy.

With a view to preserving stability during the COVID-19 pandemic, the Central Bank has undertaken comprehensive measures within its authority to maintain stability of the banking and financial systems. See "*Monetary and Financial System—Fiscal and Economic Response to COVID-19*".

2020 outlook

According to preliminary data from the Statistical Office of Montenegro, the real growth rate of the Montenegrin economy in the six months ended 30 June 2020 was negative 10.3 per cent. The economic decline during the period was due to the adverse effects of the COVID-19 pandemic. The largest decline in the six month period was recorded in exports of goods and services of 35.5 per cent., due to the negative impact on tourism arrivals, with closed international borders and strict social distancing rules to mitigate the impact and the spread of the disease. Gross fixed capital formation recorded a real decline of 14.2 per cent, due to investment activity delays, displaced workers and challenging supply chains of materials and related equipment for investment projects. Due to declines in employment, tourism and related sectors, private consumptions for the first six months of 2020 recorded a decline of 6.3 per cent. The only component of GDP which recorded a positive growth rate was public consumption, which helped to mitigate some of the effects of COVID-19 on economic activity, providing support measures for the Montenegro population and companies. Public consumption growth for the stated period was 0.3 per cent. annually in real terms. Due to such dynamics of consumption and investment movements, imports of goods and services declined by 17.8 per cent. in the first six months of 2020. In the six months ended 30 June 2020, tourist arrivals and overnight stays in collective accommodation decreased by 78.5 per cent. and 83.3 per cent., respectively, compared to the same period in the previous year. In the six months ended 30 June 2020, construction activity decreased by 6.9 per cent. compared to the six months ended 30 June 2019. The average number of employees for the six months ended 30 June 2020 was 185,737, a decrease of 7.7 per cent. on an annual basis. According to the Labour Force Survey, the average unemployment rate for the six months ended 30 June 2020 was 15.8 per cent., a 1.1 per cent. increase compared to the six months ended 30 June 2019. The Government expects the unemployment rate at the end of 2020 to increase further to 17.9 per cent. Consumer prices for the six months ended 30 June 2020 increased slightly at an average annual rate of 0.1 per cent., compared to the same period in 2019, and are expected to be lower at 0.1 per cent. annually through the end of the year, with no significant external pressures to the prices, and with lower aggregate demand leading to a slight decline in consumer prices in 2020.

Based on the available indicators for the six months ended 30 June 2020, and expected developments during the rest of the year, the Government expects nominal GDP and real GDP to decline in 2020 to €4,279.0 million and by 14.2 per cent., respectively. The expected GDP growth is based on lower tourism revenues, and related sectors such as retail trade, agriculture and transportation, lower private consumption, and declines in investment during 2020. Consumer prices in 2020 are expected to decline an average of 0.1 per cent. annually. Employment is expected to decline by 5.5 per cent. and the unemployment rate is expected to increase from 15.1 per cent. at the end of 2019 to 17.9 per cent. at the end of 2020. Investors are cautioned that the estimated information as to GDP for the full year 2020 is based on the latest available indicators as at 30 June 2020. The balance of payments data (which, for the nine months ended 30 September 2020 indicate a decline in revenue from tourism by up to €88 million more than the expected decline used by the Government in estimating full year 2020 GDP) indicates a potentially greater decline in GDP for the full year 2020 than the foregoing estimates.

Medium term outlook

Based on current estimates, Montenegro expects the cumulative real GDP growth rate to be in excess of 20 per cent. for the period of 2021-23, driven by the recovery in domestic demand and in net exports, due to the recovery of the tourism sector. See "*Risk Factors—The Prospectus includes projected GDP and other data, which may not be realised*".

The projected commencement of the operational phase of the first section of the Bar-Boljare Motorway in 2021 is expected to have positive effects on the economic environment and accelerate future economic growth. The Government expects completion of the first section of the highway to shorten the travel time between the north and south of Montenegro and create new business opportunities and investments.

The eventual reduction in investment from public sources upon the completion of the first section of the Bar-Boljare Motorway is expected to be offset by an increase in private investment, due to the economic citizenship programme the modernisation of the international airports, the adopted Law on Public Private Partnership and other announced investments. Improvements in the overall business and regulatory environment, including through an expected acceleration of EU integration, are aimed at continuing to encourage FDI inflow, which the Government expects to reach an average of 9.0 per cent. of GDP between 2021 and 2023.

Tourism is expected to recover in the medium-term after the adverse shock to the sector in 2020 due to the COVID-19 pandemic, aggravated by the border closures with the neighbouring countries. As a new policy is put in place by the new Government, tourism revenues in 2021 are estimated to gradually recover and reach 55 per cent. of the 2019 levels. Full recovery of tourism revenue to 2019 levels is expected to be achieved by 2023. This is in line with the "World Tourism Organization" global tourism recovery estimates of 2.5 to 4 years. Projected tourism revenues in the medium-term also rely on structural reform measures, increases in capacity and enhancements in the offerings.

Exports from the tobacco, metal, energy and pharmaceutical industries are expected to continue growing and will help gradually reduce the balance of payments deficit. Employment is expected to grow throughout the period and unemployment is expected to decrease to below 15 per cent. by 2023 due to training and education programmes, self-employment support programmes and financial incentives for employers, particularly in the northern region of Montenegro. Assuming stable oil and food prices in the world markets and no domestic pressures on consumer prices, inflation in the medium term is expected to remain subdued through the period, with 1 per cent. expected inflation in 2021.

According to Government projections, macroeconomic developments in the period 2021-2023 are characterised by a partial and gradual recovery of economic flows, driven primarily by expected tourism trends and announced investment projects in energy, agriculture, industrial production, tourism, transport, telecommunications and IT sector. Unemployment is expected to fall on the back of this recovery, reaching 15.5 per cent. at the end of 2021. Montenegro's economic recovery will proceed in accordance with the planned structural reforms that will be implemented in the medium term, but also the Economic and Investment Plan adopted by the European Commission for the Western Balkans, which will provide financing support for priority infrastructure, utilities, environment, energy and other important projects, assistance to small and medium-sized enterprises, and innovation and productivity growth of the private sector.

Economic reforms

In January 2020, the Government adopted the ERP, which sets out Montenegro's economic policy in the medium term. In addition to infrastructure projects, the ERP sets out the following 20 priority measures in eight areas:

- Area 1: Energy market and transportation market reform – improving Montenegro's legal, regulatory and institutional framework as well as the ownership, management and organisational structure of the state-owned energy companies with the aim to develop a domestic electricity market which can be integrated with the regional electricity market and creating an efficient and independent rail transport regulatory safety authority;

- Area 2: Sector development – fostering investment in the industrial sector, supporting the development and modernisation of the industrial sector, supporting investments in the food production sector in order to reach EU standards, diversifying the tourism product and strengthening the framework for the prudential supervision and rehabilitation of banks;
- Area 3: Business environment, corporate governance and reduction of the "grey economy" – implementing a new regulatory framework for public-private partnerships and amending the Law on Concessions, adopting and implementing the Law on Administrative Fees, adopting the Law on Issuing Electronic Fiscal Invoices and implementing an electronic fiscal invoices system and improving financial support for micro, small and medium-sized enterprises ("**MSMEs**");
- Area 4: Research, development and innovation and the digital economy – improving the legislative and regulatory framework with the aim of reducing the costs associated with deploying high-speed electronic communication networks and strengthening the national innovation ecosystem;
- Area 5: Trade-related reforms – implementing trade facilitation measures as defined by the WTO Trade Facilitation Agreement and the CEFTA Additional Protocol;
- Area 6: Education and skills – developing qualifications and educational programmes in line with the labour market needs and carrying out apprenticeships with employers;
- Area 7: Employment and labour market – supporting self-employment and strengthening local initiatives for employment; and
- Area 8: Social inclusion, poverty reduction and equal opportunities – developing a day care service for the elderly and incentives to involve children in sports activities.

In February 2015, the Government adopted a decision establishing the National Investment Commission (the "**NIC**"), through which the funds of the Western Balkans Investment Framework ("**WBIF**") and other EU funds will be utilised to realise strategically relevant infrastructure projects. In December 2015, the NIC adopted the first Single Project Pipeline ("**SPP**"), a unified list of priority infrastructure projects. The SPP is updated periodically, most recently in July 2019. Currently, the list covers five sectors: energy, transport, environment and social and digital infrastructure (which was the most recent addition to the list). Of the 56 projects, nine projects are in the energy sector, 12 projects are in the transport sector, eight projects are in the environment sector (which is comprised of a large number of sub-projects in water supply, waste management, waste water, flood protection, air quality and civil protection), 24 projects are in the social sector, and 3 projects in the digital infrastructure sector. The estimated total value of all projects across the five sectors is approximately €5 billion. The implementation of the projects is expected to create a stable infrastructure base for more intensive and sustainable economic growth that will lead to a higher quality of life for individuals in Montenegro.

Gross Domestic Product

Montenegro's GDP grew by 2.9 per cent. in 2016, by 4.7 per cent. in 2017 and by 5.1 per cent. in 2018, in each case, in real terms. GDP in 2019 recorded real growth of 4.1 per cent. which was driven by increased household consumption and significant employment growth. The following table shows the growth in private consumption for the year ended 31 December 2019 in Montenegro as well as in North Macedonia, Albania, Serbia, Croatia, Romania and Bulgaria.

	Year ended 31 December 2019
	(%)
North Macedonia	3.5
Albania	3.3
Serbia	3.6
Croatia	3.5
Montenegro	3.1
Romania	5.5
Bulgaria	5.5

Source: European Commission economic forecast – Fall 2020

All sectors had a positive impact on GDP growth in 2019, especially the tourism, construction, trade, transportation and agriculture sectors. The Government expects the tourism and construction sectors to be among the main contributors to future economic growth.

The following table sets out GDP at current prices, nominal GDP growth rates, per capita GDP at current prices, GDP at constant 2000 prices and Real GDP growth rates for the years ended 31 December 2016, 2017, 2018 and 2019 and the six months ended 30 June 2020.

	Year ended 31 December				Six months ended 30 June
	2016	**2017**	**2018**	**2019**	**2020**
GDP at current prices (€ million)	3,954.2	4,299.1	4,663.1	4,950.7	1,813.6
Nominal GDP growth rates (%)	8.2	8.7	8.5	6.2	(11.0)
Real GDP growth rates (%)	2.9	4.7	5.1	4.1	(10.3)
Per capita GDP at current prices (€)	6,354	6,908	7,495	7,959	—
GDP at constant 2010 prices (€ million)	3,520.4	3,686.5	3,873.7	4,031.1	1,828.5

Source: MONSTAT

The following table sets out the structure of GDP at current prices from the expenditure side for the years ended 31 December 2016, 2017, 2018 and 2019 and the six months ended 30 June 2020.

	Year ended 31 December								Six months ended 30 June	
	2016		**2017**		**2018**		**2019**		**2020**	
	Size	**% of GDP**	**Size**	**% of GDP**	**Size**	**% of GDP**	**Size**	**% of GDP**	**Size**	**% of GDP**
	(€ thousand)	*(%)*	*(€ thousand)*	*(%)*	*(€ thousand)*	*(%)*	*(€ thousand)*	*(%)*	*(€ thousand)*	*(%)*
Final consumption expenditure	3,810,556	96.4	4,007,689	93.2	4,287,489	91.9	4,414,728	89.2	1,996,802	110.1

	Year ended 31 December								Six months ended 30 June	
	2016		2017		2018		2019		2020	
	Size	% of GDP	Size	% of GDP	Size	% of GDP	Size	% of GDP	Size	% of GDP
of which: Households final consumption expenditure (HFCE)..	3,035,067	76.8	3,215,527	74.8	3,424,602	73.4	3,533,604	71.4	1,572,463	86.7
Government final consumption expenditure (GFCE)..	775,489	19.6	790,162	18.4	862,887	18.5	881,124	17.8	424,338	23.4
Gross fixed capital formation (GFCF).....	978,475	24.7	1,157,403	26.9	1,363,930	29.2	1,351,813	27.3	558,396	30.8
Changes in inventories	53,755	1.4	141,903	3.3	124,301	2.7	229,470	4.6	30,040	2.2
External balance of goods and services	(888,575)	(22.5)	(1,007,904)	(23.4)	(1,112,589)	(23.9)	(1,045,294)	(21.1)	(780,616)	(43.0)
of which: Exports of goods and services	1,605,436	40.6	1,765,000	41.1	1,999,318	42.9	2,163,414	43.7	475,010	26.2
Imports of goods and services	2,494,011	63.1	2,772,904	64.5	3,111,907	66.7	3,208,708	64.8	1,255,626	69.2
GDP.........................	3,954,212	100.0	4,299,091	100.0	4,663,131	100.0	4,950,717	100	1,813,622	100.0

Source: MONSTAT

Principal Sectors of the Economy

Since the early 2000s, and in particular, since Montenegro declared independence in 2006, the structure of its economy has changed drastically. Instead of industrial production, predominantly focused on metal production, the main drivers of the economy have emerged from the service sector, principally tourism and related services, transport and retail sales, as well as construction and energy production. The number of SMEs has increased rapidly and continues to grow. Montenegro expects the contribution of the industrial sector to gross value added to increase in the future, specifically as a result of significant recent investments in the energy sector, and in particular the new renewables capabilities and the transmission network and underwater power cable between Montenegro and Italy, as well as other industrial investments including in the processing industry.

The following tables set out the structure of GDP from the production side and the index of nominal growth and real growth rate for each component of GDP for the years 2018 and 2019.

	Gross value added 2018, current prices	Gross value added 2019, current prices	Index of nominal growth[(1)]	Real growth rate[(2)]
	(€ million)	*(€ million)*		*(%)*
Agriculture, forestry and fishing..................	313,933	316,541	0.8	(2.2)
Mining and quarrying	50,434	61,760	22.5	13.6
Manufacturing	185,761	184,071	(0.9)	(1.0)

	Gross value added 2018, current prices	Gross value added 2019, current prices	Index of nominal growth(1)	Real growth rate(2)
	(€ million)	*(€ million)*		*(%)*
Electricity, gas, steam and air conditioning supply	164,175	151,220	(7.9)	(8.8)
Water supply; sewerage, waste management and remediation activities	76,295	83,178	9.0	5.1
Construction	266,364	318,294	19.5	12.6
Wholesale and retail trade; repair of motor vehicles and motorcycles	589,250	619,826	5.2	4.1
Transportation and storage	194,450	200,543	3.1	4.4
Accommodation and food service activities	341,695	386,290	13.1	9.0
Information and communication	172,042	181,055	5.2	3.5
Financial and insurance activities	186,072	186,556	0.3	0.8
Real estate activities	251,044	274,009	9.1	8.9
Professional, scientific and technical activities	139,219	153,603	10.3	19.1
Administrative and support service activities	98,108	103,611	5.6	10.1
Public administration and defence; compulsory social security	314,721	332,085	5.5	1.4
Education	178,297	181,352	1.7	(0.4)
Human health and social work activities	165,503	166,613	0.7	1.3
Arts, entertainment and recreation	84,407	71,046	(15.8)	(6.4)
Other service activities; activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	44,367	50,693	14.3	16.9
Total	3,816.1	4,022.3	5.4	4.2
Taxes on products less subsidies on products	847.0	928.4	9.6	3.6
Gross domestic product (current prices)	4,663.1	4,950.7	6.2	4.1

Source: MONSTAT

Notes:

(1) Index of nominal growth = (GDP at current prices in current year/GDP at current prices in previous year) * 100

(2) Real growth rate = (Gross value added at constant prices in the current year/gross value added at current prices in the previous year) * 100

The Montenegrin economy is predominantly a service-oriented economy. Based on gross value added data for 2019, the largest sub-sectors of the economy were the wholesale and retail trade at 12.5 per cent., accommodation and food services at 7.8 per cent., public administration at 6.7 per cent., agriculture, forestry and fishing at 6.4 per cent. and construction at 6.4 per cent. of the total gross value added at current prices.

Tourism

The tourism sector in Montenegro started to grow in 2000 and has generally continued to grow year-on-year through to 2019, with annual increases in the number of tourist arrivals and overnight stays and with the tourism sector generating revenues almost every year.

In 2015, 2016 and 2017, the number of tourist arrivals in collective accommodation establishments was 633,850, 808,788, and 955,499, respectively. This number increased to 1,076,848 and 1,293,189 in 2018 and 2019, respectively. Tourist arrivals in collective accommodation facilities for the first nine months of 2020 amounted to 240,395, representing a decline of 77.7 percent as compared to the same period in 2019 and total overnight stays amounted to 848,372, representing a decrease 79.7 per cent. over the same period. Collective accommodation establishments include hotels, camping sites, tourist resorts, vacation facilities, boarding houses, motels, and other equivalent establishments. Collective accommodation establishments do not include individual, private accommodation such as rented accommodation in houses, rooms and apartments.

In 2018, Montenegro had an accommodation capacity of 46,553 beds in collective accommodation establishments which was an increase of 820 beds compared to 2017. Accommodation capacities increased by a further 2,284 beds in 2019. Approximately 52 per cent. of the available beds in collective accommodation establishments in Montenegro comprised hotels in the form of four- or five-star hotels, catering for visitors with relatively higher purchasing power.

Total foreign tourism revenues in 2016 were approximately €835.7 million, which represents an increase of 2.8 per cent. compared to 2015. Total foreign tourism revenues in 2017 were approximately €921.7 million, which is 10.3 per cent. higher than in 2016. Total foreign tourism revenues in 2018 were €1,001.1 million, which represents an increase of 8.6 per cent. compared to 2017. Total foreign tourism revenues in 2019 were €1,098.3 million, which represents an increase of 10.9 per cent. compared to 2018.

The following table sets out the total number (collective and individual accommodation) of tourist arrivals and overnight stays by home countries for the years 2015 to 2019.

	2015		**2016**		**2017**		**2018**		**2019**	
	Arrivals	**Over-night stays**	**Arrivals**	**Over-night stays**	**Arrivals**	**Over-night stays**	**Arrivals**	**Over-night stays**	**Arrivals**	**Over-night stays**
EU	438,872	2,290,555	466,995	2,369,444	506,652	2,445,921	639,704	3,010,701	850,993	3,598,747
Serbia	372,912	2,865,874	373,325	2,753,733	405,426	2,942,858	409,385	3,053,002	402,866	2,988,690
Russia	298,385	2,745,004	316,826	2,874,696	350,468	3,059,123	338,463	3,123,516	384,689	3,470,593
Bosnia and Herzegovina	154,017	966,363	178,104	1,044,165	183,690	1,083,048	193,587	1,130,799	203,766	1,185,972
Albania	37,547	103,644	38,796	114,763	56,206	214,365	65,419	221,987	79 001	241,918
Other foreign	258,191	1,335,931	288,075	1,371,674	374,770	1,724,817	430,245	1,903,805	588,310	2,447,618
Domestic	153,185	747,576	151,696	721,530	122,797	483,184	128,053	486,524	135,592	522,382
Total	1,713,109	11,054,947	1,813,817	11,250,005	2,000,009	11,953,316	2,204,856	12,930,334	2,645,217	14,455,920

Source: MONSTAT

According to MONSTAT, Montenegro was visited by 2.6 million tourists in 2019, which resulted in 14.5 million overnight stays and represented an increase of 20.0 per cent. and 11.8 per cent., respectively, compared to 2018. The home countries of tourists in 2019 were fairly diversified, with approximately 24.0 per cent. of overnight stays made by tourists arriving from Russia, 20.7 per cent. from Serbia, 24.1 per cent. from European Union countries, 8.2 per cent. from Bosnia and Herzegovina, 1.7 per cent. from Albania and 17.6 per cent. from other foreign countries. In 2019, the number of overnight stays from European Union countries increased by 17.3 per cent. compared to 2018. Total number of overnight stays by foreign tourists in 2019 amounted to 13.9 million, with tourists from the Balkan region (including Albania, Bosnia and Herzegovina, Kosovo, N. Macedonia and Serbia) accounting for 38.5 per cent. of overnights stays made by foreign tourists, followed by 25.0 per cent. made by tourists from Russia, 22.3 per cent. from tourists from the countries of the European Union and 14.2 per cent. from tourists from other countries.

According to MONSTAT, Montenegro was visited by 2.2 million tourists in 2018, which resulted in 12.9 million overnight stays and represented an increase of 10.2 per cent. and 8.2 per cent., respectively, compared to 2017. The home countries of tourists in 2018 were fairly diversified, with approximately 24.2 per cent. of overnight stays made by tourists arriving from Russia, 23.6 per cent. from Serbia, 23.3 per cent. from European Union countries, 8.7 per cent. from Bosnia and Herzegovina, 1.7 per cent. from Albania and 14.7 per cent. from other foreign countries. In 2018, the number of overnight stays from European Union countries increased by 3.2 per cent. compared to 2017.

According to the ERP, Montenegro was visited by approximately 2.0 million tourists in 2017, which resulted in 11.9 million overnight stays and represented an increase of 10.3 per cent. and 6.3 per cent., respectively, compared to 2016. In 2017, domestic visitors accounted for 4.0 per cent. of total overnight stays, while foreign tourists accounted for 96.0 per cent. with the majority of overnights stays made by visitors from Russia (26.7 per cent.), Serbia (25.7 per cent.), Bosnia and Herzegovina (9.4 per cent.) and Ukraine (3.8 per cent.).

In 2016, Montenegro was visited by 1.8 million tourists, which resulted in 11.3 million overnight stays and represented an increase of 5.9 per cent. and 1.8 per cent., respectively, compared to 2015. The growth in tourist traffic in 2016 was primarily a result of a higher number of arrivals and overnight stays by tourists from neighbouring countries and European Union countries. According to the ERP, tourism, which includes accommodation and food services, accounted for 8.6 per cent. of gross value added in 2016.

Tourists arriving from Russia comprise the largest proportion of overnight stays hence any adverse economic or political conditions in Russia may affect Montenegro's tourism industry. For example, Montenegro's accession to NATO and the sanctions imposed on Russia by the United States, the EU and other countries (including Montenegro) may result in a lower number of total visitors from Russia or a lower number of overnight stays made by tourists arriving from Russia.

Based on available data, approximately 96.2 per cent., 95.0 per cent. and 94.9 per cent. of the total number of overnight tourist stays were on the Montenegrin coast in 2016, 2017 and 2018, respectively. In 2019, 94.9 per cent. of the total overnight stays were focused along the Montenegrin coast. The Government believes that there is also potential for increases in tourist numbers visiting the mountainous inland area of the country, for skiing in winter months and biking, hiking and other outdoor activities during other parts of the year and Lake Skadar, the largest lake in the Balkans. These efforts are also expected to partially counter-balance the seasonality of the tourism sector, as most of the tourist activities currently take place during the summer months. The Government is currently focused on infrastructure investment projects and marketing activities with a view to promoting inland tourism.

The Government expects economic growth to continue and significant further private investments in the tourism sector, principally in a number of major developments on the coast. See "*—Balance of Payments and Foreign Trade—FDI*" for a description of major tourist projects that are currently underway. The Government's priorities for 2020 until 2021 to develop the tourism sector are to further develop tourist infrastructure, such as improving accessibility, increasing airport capacity, improving sewage and water supply utilities and developing high quality accommodation such as four and five star hotels, to prioritise promoting and raising awareness of Montenegro as a unique and year-round tourist destination and to solicit more involvement from local municipalities.

The Government recognises tourism as a very important sector of the economy and supports it through maintaining a lower VAT rate for accommodation and food products and important infrastructure projects, such as coastline water supply and wastewater treatment projects, solid waste projects, and road infrastructure. Most of these infrastructure projects are co-financed with major international financial institutions such as the EIB, the EBRD, KfW and the World Bank. See "*Risk Factors—Risk Factors Relating to Montenegro—Montenegro depends on its tourism industry as a significant source of revenue and any deterioration in its tourism industry may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes*".

Industrial production

In the past, industrial production has contributed significantly to the GDP of Montenegro, comprising 16 per cent. of total GDP in 2004. In recent years, however, the share of industrial production in total GDP has, for the most part, declined and amounted to 8.2 per cent. and 9.3 per cent. of total GDP in 2012 and 2013, respectively. In 2014 and 2015, industrial production grew slightly before declining and amounted to 9.8 per cent. and 7.9 per cent. of total GDP, respectively.

In 2016, industrial production decreased by 4.4 per cent. as compared to 2015, due to an 18.1 per cent. decline in the mining and quarrying sector, resulting from a lack of extraction of metal ores, and a 7.8 per cent. decline in the manufacturing sector, a consequence of decreased production of tobacco products, clothing, chemicals and metal products. The electricity, gas and water supply sector recorded an increase of 3.5 per cent. in 2016 as compared to 2015.

In 2017, industrial production decreased by 4.2 per cent. as compared to 2016. The electricity, gas and water supply sector recorded a decrease of 24.6 per cent. in 2017 as compared to 2016, primarily due to low production at hydro power plants, and the manufacturing sector recorded a decrease of 9.3 per cent. in the same period. The mining and quarrying sector recorded an increase of 113.9 per cent. in 2017 as compared to 2016, due to the intensive extraction of metal ore.

In 2018, industrial production grew by 22.4 per cent. as compared to 2017. The electricity, gas and water supply sector recorded an increase of 62.1 per cent. in 2018 as compared to 2017, primarily due to increased electricity production in HPPs, and the manufacturing sector recorded an increase of 12.1 per cent. in the same period. The mining and quarrying sector recorded a decrease of 21 per cent. in 2018 as compared to 2017, due to the high base from the previous year.

In 2019, industrial production fell by 6.3 per cent. for the year ended 31 December 2019 compared to the year ended 31 December 2018, which includes a decrease in the electricity, gas and water sector and manufacturing sector of 7.1 per cent. and 10 per cent., respectively, and an increase in the mining and quarrying sector of 20.8 per cent.

Energy production

Overview

The following table shows renewable sources of energy and other production for 2010 to 2019.

	Year ended 31 December									
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**(1)
	(GWh)									
Renewable energy sources	2,759.6	1,203.9	1,470.0	2,498.0	1,717.8	1,459.9	1,807.2	1,081.8	2,300.1	1,992.4
Other production	1,271.7	1,452.3	1,245.1	1,311.0	1,322.1	1,411.6	1,216.2	1,265.0	1,443.8	1,390.1

	Year ended 31 December									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019[(1)]
					(GWh)					
Total	**4,031.3**	**2,656.1**	**2,715.1**	**3,809.0**	**3,039.9**	**2,871.6**	**3,023.4**	**2,346.8**	**3,743.9**	**3,382.5**

Source: Energy Regulatory Agency

Note:

(1) Preliminary data for 2019.

Montenegro's electricity sector includes three large power plants: Hydro power plant Piva ("**HPP Piva**"), hydro power plant Perucica ("**HPP Perucica**") and thermal power plant Pljevlja ("**TPP Pljevlja**"). In addition to the large power plants, several smaller hydro power plants operate in Montenegro. Although the energy generation and installed capacities of Montenegro's power plants are modest, the Government has made a significant effort to further promote renewable energy sources and attract investors to construct hydro power plants, wind power plants and solar panels in Montenegro. In May 2017, wind power plants in Krnovo, near Niksic, began operating with a total installed capacity of 72 MW.

In 2019, the total generated electricity amounted to 3,382.49 gigawatt hours ("**GWh**"). During this period, HPP Perucica, HPP Piva and TPP Pljevlja generated 951.97 GWh, 665.09 GWh and 1,390.11 GWh, respectively. Smaller hydro power plants generated 80.34 GWh and wind power plants generated 293.94 GWh in 2019.

The amount of total electricity consumed in Montenegro amounted to 3,482.83 GWh in 2019. The largest single electricity consumer in Montenegro during this period was KAP, which consumed around 16.1 per cent. of the total electricity in the country. In the medium to long-term, energy production, and in particular, the production of renewable energy, is expected to be one of the largest sources of growth in Montenegro's economy.

Montenegro has enacted several key measures to align its energy legislation with EU directives relating to energy efficiency. In 2014, the Law on Efficient Use of Energy was adopted, and in December 2015, the new Energy Law was adopted which is aligned with the EU's third energy package. In addition, the "Energy Development Strategy of Montenegro by 2030" was adopted by the Government in July 2014, with an action plan for its implementation between 2016 and 2020. Further, the EIB has commissioned the "Gas Development Master Plan & Priority Project Portfolio Identification in Montenegro" within the WBIF, which is a study on the development of a comprehensive medium-term natural gas master plan to examine all aspects, including technical, legal and regulatory, economic, market and social, relating to the introduction of gas in several regions of Montenegro. A supporting Strategic Environmental Impact Assessment ("**EIA**") was finalised and adopted by the Government in June 2016.

Hydro Power Plants ("HPPs")

Montenegro has two principal HPPs:

- HPP Piva: With an installed capacity of 342 MW, HPP Piva is one of the three main sources for stable electric power supply in Montenegro. It provides energy by way of three identical units and a 42 kilometre-long reservoir with a capacity of 800,000 cubic metres of water.
- HPP Perucica: With an installed capacity of 307 MW and a potential annual production of up to 1,300 GWh, HPP Perucica is the oldest, large HPP in Montenegro. For electricity production, HPP Perucica utilises 850 square metres of a reservoir catchment area which captures 225 million cubic metres of water.

HPP Komarnica Project

In 2018, a Montenegrin power utility EPCG company signed a €1.6 million contract for the design of HPP Komarnica with 172 MW of installed power and plans to annually produce approximately 213 GWh of electricity. The contract was signed with a consortium including Institut za Vodoprivredu Jaroslav Cerni and Energoprojekt Hidroinzenjering. The consortium has completed the first part of the conceptual design which has been deemed as environmentally acceptable. A detailed spatial plan for the multipurpose water reservoir on the Komarnica river was adopted by Parliament in July 2020. In August 2020, the Ministry of Economy issued to EPCG the "Concession Act for the Komarnica Hydropower Project with a Report from the Public Hearing and the Draft Concession Agreement for the Use of Natural Resources for Construction, Maintenance and Use of the Komarnica Hydropower Energy Facility for Electricity Production", which was previously adopted by the Government on 27 August 2020. In October 2020, EPCG submitted to the Ministry of Economy a bid for a concession for the use of natural resources and construction, maintenance and use of energy for the purpose of electricity production at HPP Komarnica. The total cost of the project is estimated to reach approximately €260-290 million.

In addition, the Government signed memorandums of understanding with Chinese, Turkish and Slovenian companies between 2015 and 2017, with technical bids submitted by the companies for the development of HPPs on the Morača river. Despite the basic technical solution which envisages construction of four hydropower plants with installed capacities of 238.4 MW, the Government remains open to reviewing alternative technical proposals to the extent that improved performance could be achieved.

Small Hydro Power Plant ("SHPPs")

The Western Balkan region has the largest remaining unexploited hydropower potential in Europe, with a 40 per cent. share of energy from renewable sources in Europe in 2017, as its river catchments have remained largely undeveloped. The region has an estimated 80,000 GWh technical potential, which is concentrated in Montenegro and Albania.

As of the date of this Prospectus, there are plans to construct 55 SHPPs based on 40 concluded concession contracts. Of the 55 planned SHPPs, 24 SHPPs have completed construction and 1SHPP has completed reconstruction pursuant to an energy permit, with a total installed capacity of 34.2 MW and a total investment value of € 65.5 million. In 2019, the completed SHPPs generated 80.34 GWh of electricity, which was less than the expected output by 1.35 GWh or by 2.85 per cent.

The construction of SHPP production facilities with installed capacity of less than 10 MW is approved through a bidding process, which is carried out in accordance with the Law on Concessions or through the energy permit which is carried out in accordance with the Energy Law. Bids can be initiated by stakeholders proposing the construction of the SHPP facility or can be requested by the Government and based on both of these procedures a concession contract can be concluded. The Government is currently considering concession contracts for the exploration of 18 sites, which could lead to the construction of up to 37 SHPPs in Montenegro in accordance with the contracts concluded through a bidding process. The total installed capacity of these SHPPs is expected to be approximately 84 MW, with a planned annual production of approximately 266 GWh. As of the date of this Prospectus, 16 out of the possible 37 SHPPs have been completed with 15 having received operating permits and one currently undergoing a trial period. The combined installed capacity of the 16 SHPPs is approximately 50 MW with an expected production of 100 GWh in 2020. Based on current plans, it is expected that 14 additional SHPPs will commence operation in 2021. The total planned production from SHPPs in 2021 is expected to be 170.69 GWh.

Thermal Power Plants ("TPP")

The Government considers the ecological reconstruction of the existing block of TPP Pljevlja a priority project.

In 2018, after being contracted by the Government, Steag Energy Services GmbH ("**Steag Energy**") designed a preliminary plan for the reconstruction of TPP Pljevlja in accordance with the best available techniques and the most stringent environmental protection parameters as envisaged by the EU's Commission Implementing Decision (EU) 2017/1442 and the regulations for large combustion plants (Directive 2010/75/EU). The plan provides for, among other things, the construction of a system for desulphurisation, denitrification, improvement of the operation of the electro-filter plant, construction of a wastewater treatment system and reconstruction of the internal ash and slag transport system.

The tender announcement for the preparation of the main project and its construction was carried out at the end of 2019, and a bid with the value of €54.43 million was selected.

In May 2020, EPCG received a building permit for the ecological reconstruction of TPP Pljevlja, and in June 2020, an agreement on the implementation of ecological reconstruction was concluded with the Chinese-Montenegrin consortium "DEC International-Bemax-BB Solar-Permonte", led by Dongfang Electric International Corp, part of China's Dongfang Electric Corporation Limited (DEC). The preparation of the main project and the project execution is expected to be carried out in several phases between 2020 and 2024.

Wind Farms

Krnovo Wind Farm

In 2010, the Government signed a 20 year lease agreement with a consortium led by MHI-IVICOM for the purpose of constructing 26 wind turbines in Krnovo. In 2012, Akuo-IVICOM Consulting GmbH joined the consortium as the leading member. In 2018, Akuo Energy announced that it signed an agreement to sell a 49 per cent. stake in its Montenegrin subsidiary which operates the wind farm Krnovo Green Energy to Abu-Dhabi-based Masdar. A construction permit was granted in May 2014 with the first trial electricity production on five wind turbines taking place in May 2017.

The Krnovo wind power plant is Montenegro's first utility-scale wind farm. The wind power plant has a capacity of 72 MW and is capable of producing power supply per year equivalent to 45,863 households, with 78,768 tons reduced carbon dioxide per year. The yearly lease of state land for the construction of the wind farm on the site amounts to €0.10 per square metre. For the first 12 years of operations, the Government has guaranteed a purchase price of at least €95.99/MWh for electricity produced by the wind farm.

The wind farm received an occupancy permit on 30 August 2017 and on 2 November 2017 the wind farm received a licence authorising the production of electricity from the Energy Regulatory Agency. The total cost of the project is estimated at approximately €142 million. The total production from wind power plants in 2019 was 192.66 GWh and is expected to be 189.11 GWh and 201.00 GWh in 2020 and 2021, respectively, based on current estimates.

Mozura Wind Farm

In 2010, the Government signed a 20-year lease agreement with a consortium including Fersa Energias Renovables S.A. ("**Fersa**") and Celebic, for the purposes of constructing a wind farm capable of producing 46MW of renewable energy. In 2015, the lease and construction agreements were transferred to a Maltese state-owned entity, Enemalta plc. In 2017, the Government approved the transfer of a 90 per cent. stake in Mozura Wind Park, the company responsible for the construction of the wind farm, from Enemalta plc to Malta Montenegro Wind Power JV Limited. Under the terms of this transfer, investment obligations remain with Enemalta plc but further extend to Malta Montenegro Wind Power JV Limited.

The wind power plant has a capacity of 46MW on 502,858 square metres of land at a cost of €0.37 per square metre. The project will include the construction of, among other things, a substation, 23 wind turbines and generators. For the first 12 years of operations, the Government has guaranteed a purchase price of at least

€95.99/MWh for electricity produced by the wind farm. The total cost of the project is estimated to be approximately €87 million.

In 2019, the plant commenced commercial activity after receiving a use permit from the Ministry of Sustainable Development and Tourism. The total production from wind power plants in 2019 was 101.27 GWh and is expected to be 133.43 GWh and 119.60 GWh in 2020 and 2021, respectively, based on current estimates.

Brajići Wind Farm Project

In 2019, Montenegro launched a tender process for a long-term lease for the construction of a wind farm with a minimum installed capacity of 70MW on the Brajići locality in the municipalities of Budva and Bar. The land covering the Brajići locality spans 13,791,606 square meters, and the minimum lease fee requested in the tender was €0.05 per square meter annually during a 30-year lease period. On 11 October 2019, "WPD Brajići" consortium, which is comprised of WPD AG and "Wind farm Budva" company, submitted a bid for this project. A contract for the construction of a 100.8 MW wind power plant at the Brajići site was signed on 26 August 2020 with the WPD Brajići Consortium.

Solar Power Plants

Briska Gora Solar Plant

In 2018, a tender was carried out for a land lease for the construction of a solar power plant with an installed capacity exceeding 200 MW in Briska Gora in the Ulcinj Municipality. Following the tender process, a consortium comprising the EPCG, Fortum (a Finnish energy company), and energy performance contracting service provider Sterling & Wilson was selected in 2018. The consortium's bid included the construction of a 250 MW solar power plant with a total of 226 people being employed. The total value of the investment is approximately €178 million. In December 2018, the Government and the Fortum and EPCG consortium signed a land lease agreement for the construction of a 250 MW solar power plant at the Briska Gora site.

Other Energy Projects

MONITA Underwater Cable

On 15 November 2019, the 432km MONITA Underwater Cable was completed. As electricity prices in Italy are generally higher than in Montenegro, the MONITA Underwater Cable allows Montenegrin energy generation companies to export electricity to customers in Italy. Additionally, the project enables Montenegro to act as a regional hub for energy, transporting electricity generated in other countries to customers in Italy. The cable was officially launched for commercial use on 28 December 2019, and to date, it has significantly increased the flow of electricity to Italy through Montenegrin system.

Following the success of the MONITA Underwater Cable, a feasibility study for a new interconnection between Montenegro, Serbia and Bosnia and Herzegovina was prepared in 2019 and is currently being updated. It is expected that the conceptual design for the part of this project in Montenegro will be developed within the framework of this study in 2020. In addition, a detailed spatial plan is expected to be adopted in 2020 for the corridor of the 2x400 kV OHL Pljevlja 2-Bajina Bašta, for the section on the territory of Montenegro.

Exploration and Production of Oil and Gas from the Adriatic Sea

In September 2016, the Government announced that it had signed a concession contract with a consortium of Italy's Eni and Russia's Novatek, awarding it a 30-year concession for oil and gas exploration and production in the Adriatic Sea. The contract for four blocks covering an area of 1,228 square kilometres has been awarded in line with the terms of a 2014 tender, which initially covered an area of 3,000 square kilometres. Each of the partners has a 50 per cent. interest in the exploration and production concession. The total duration of the exploration phase of the concession contract is seven years. Within the first exploration period lasting four years, concessionaries are obliged to conduct seismic acquisition, develop a set of geology studies and drill two exploration wells. The first exploration period was extended for additional year. Activities are currently being conducted in accordance with the timeline set by concessionaries who have completed geophysical surveys and preparing for the drilling of the first exploration well in the first quarter of 2021.

As a result of the 2014 tender, the Government signed a second concession contract in March 2017 with Energean Montenegro LTD, Cyprus, a subsidiary of Energean Holding Limited, awarding a contract for two blocks covering an area of 338 square kilometres. The total duration of the exploration phase of the concession contract is seven years. Within the first exploration period lasting three years, concessionaries are obliged to conduct seismic acquisition, develop a set of geology studies and find an additional partner to the concession contract. The first exploration period was extended by additional two years. Activities are currently being conducted in accordance with the timeline set by concessionaries.

The Government designed the hydrocarbons industry fiscal system to be royalty/tax based, which includes payment of two types of fees: a fee for the production of hydrocarbons (royalty) and a fee for the area covered by a concession contract, and a hydrocarbons tax on the net profit of companies operating in the upstream industry at a tax rate of 54 per cent.

*Trans-Adriatic Pipeline ("**TAP**")*

In 2013, the Shah Deniz Consortium ("**SDC**") announced that the TAP had been selected to transport Shah Deniz II gas to Europe. TAP is part of the largest Southern Gas Corridor project, which aims at providing European countries with an alternative source and route of gas supplies from the Shah Deniz II field in Azerbaijan. The 870-kilometre natural gas pipeline will run from Greece to Italy, through Albania and the Adriatic Sea and connect the Trans Anatolian Pipeline at the Turkish-Greek border at Kipoi, cross Greece and Albania and the Adriatic Sea, before coming ashore in Southern Italy. Costing approximately €2.06 billion, TAP's initial capacity will be 10 billion cubic metres of gas per year which may be increased to 20 billion cubic metres by installing additional compressor stations and modernising existing stations.

TAP is jointly owned by BP, SOCAR, Snam, Fluxys, Total, Enagás and Axpo Trading, each holding 20 per cent., 20 per cent., 20 per cent., 20 per cent., 19 per cent., 16 per cent. and 5 per cent., respectively. Axpo Trading and Statoil Hydro have also established a joint venture which was followed by an agreement to develop, build and own the TAP project. In addition, Greece, Italy and Albania signed a tri-lateral intergovernmental agreement to ensure co-operation and the timely delivery of the TAP pipeline.

As of 1 July 2019, TAP started the market test and commenced the first gas deliveries to Europe, through which approximately 10 billion cubic meters, are expected to initially start in 2020. The project is almost 90 per cent. complete and has reached its final stages, with an offshore installation phase which will see the laying of steel pipes on TAP's 105-kilometre offshore section, across the Adriatic Sea.

*Ionian-Adriatic Pipeline ("**IAP**")*

In 2007, a Ministerial Declaration on the IAP was signed by Croatia, Montenegro and Albania. IAP envisages connecting the existing Croatian gas transmission system through Montenegro and Albania with the TAP gas pipeline system. Between 2011 and 2016, several memorandums of understanding were signed in support and co-operation in the implementation of the IAP project.

The final feasibility study for the IAP gas pipeline project was presented in April 2014 in Albania. The estimated total investment cost to build the 511 kilometres bidirectional gas pipeline is approximately €610 million. The total estimated investment required to construct Montenegro's section of the pipeline is approximately €119 million. Montenegro was awarded a grant of €550,000 at the 10th WBIF in preparation for the IAP project. The award includes contributions from the Council of Europe Development Bank, the EBRD, the EIB, KfW and the World Bank, for the development of the "Gas Development Master Plan & Priority Project Portfolio

Identification in Montenegro", with a supporting strategic EIA, which was completed in December 2015. Additionally, preliminary designs with supporting EIA studies for Montenegro and Albania's sections are expected to be finalised by 2021 through a €2.5 million WBIF grant. On 26 February 2020, the board of directors of the Montenegro Bonus DOO adopted a decision on membership of Montenegro Bonus in the Society Ionian-Adriatic pipeline, which was established for the purpose of conducting activities related to the preparation of the pipeline's construction which will pass through the territories of Croatia, Bosnia and Herzegovina, Albania, and Montenegro.

Metals manufacturing

Metals manufacturing is the second largest component of Montenegro's total industrial production and principally comprises the aluminium producer KAP and the steel producer Steel Mill.

KAP

KAP's aluminium refinery and an aluminium plant (which consists of a carbon plant, smelter, a casthouse and secondary smelter) are situated on the outskirts of Podgorica close to the Podgorica airport and connected by railway to the bauxite mine near Niksic and the Port of Bar where KAP has its own dedicated installations. The refinery produces aluminium by extracting it from the bauxite shipped from the Niksic bauxite mine. It has a capacity of 280,000 metric tonnes per a year and fully supplies the aluminium plant. The smelter consists of two potlines which are capable of producing 120,000 metric tonnes of molten aluminium per year. The casthouse casts molten aluminium into two products: standard ingots, which are re-melted for alloying in foundry plants, and T-ingots, which are cast and sized according to customer requirements and range in quality. The secondary smelter recovers scrap aluminium and dross from the casthouse and potlines.

During 2008, KAP was affected by the worldwide decline in aluminium prices as well as high electricity costs, which led to a sharp decline in production. After debt rescheduling and layoffs in 2009, KAP increased its production from 60,000 tonnes in 2009 to 81,800 tonnes in 2010. From 2012 to 2013, suppressed global aluminium prices and difficulties relating to electricity procurement by KAP resulted in declines in aluminium production and as a result, KAP was unable to meet some of its financial obligations. As a result, KAP has been the subject of bankruptcy proceedings before the Commercial Court in Podgorica since 8 July 2013. The Commercial Court declared KAP bankrupt, and the bankruptcy administrator assessed the suitability of the sale of KAP as a legal entity and also the sale of all of KAP's assets as against the sale of assets individually, in accordance with the Law on Bankruptcy. As of the date of this Prospectus, the entire property, which was the subject of the bankruptcy proceedings, was sold and the partial settlement of obligations with respect to relevant stakeholders has commenced.

Four offers were received from companies including Uniprom DOO Nikšic ("**Uniprom**"), Politropus Alternative DOO Tivat, Getsales Ltd London and Alemani Trade DOO Beograd. The bankruptcy administrator accepted the offer from Politropus Alternative DOO Tivat for the purchase of some of KAP's assets (namely, the so-called "red mud ponds"; red mud is a waste product of alumina production) and opened a new call for the sale of KAP's other assets (principally relating to smelting operations). There was one offer submitted for these assets by Uniprom, which was accepted by the bankruptcy administrator on 28 February 2014 and a sales contract was signed on 10 June 2014. However, the former owner of KAP, the CEAC, initiated legal proceedings shortly thereafter. The bankruptcy administrator determined that it was in the best interests of KAP to maintain its production process. To prevent further reduction of the value of KAP, and thus to protect the interests of other creditors of KAP, the bankruptcy administrator signed a business and technical co-operation agreement with Uniprom, where Uniprom bought the remaining assets of KAP for €28 million.

The Government has provided guarantees in connection with the debt restructuring and redundancy programmes at KAP. The guarantees for KAP were in respect of a €49.7 million loan from OTP Bank and a €22 million loan from Deutsche Bank AG, London Branch ("**DB**"), each drawn in 2010. In addition, in 2010 the Government issued a guarantee in the amount of €60 million in respect of a financial arrangement between KAP and VTB Bank relating to the restructuring of an existing loan by VTB Bank drawn in 2007.

KAP breached certain conditions of its loan agreement with DB, which resulted in an event of default under the loan being called by DB and repayment of the loan being accelerated. As KAP was unable to repay the loan, DB called upon the Government guarantee, following which the Government repaid the loan in full in April 2012.

OTP Bank and VTB Bank accelerated the required repayment of their respective loans to KAP upon the commencement of bankruptcy proceedings against KAP in July 2013. As KAP was unable to fulfil its repayment obligations, OTP Bank and VTB Bank called upon the respective Government guarantees. The Government subsequently made payments of €60 million to VTB Bank in July 2013 and €42.5 million to OTP Bank in August 2013 under the guarantees. Following these payments, the Government fulfilled all of its payment obligations under the guarantees provided in respect of KAP.

In addition, the Government has historically provided power consumption subsidies to KAP, but in April 2012, the Government discontinue this practice. Going forward, the Government does not intend to provide direct subsidies to KAP, whether, in the form of payments from the general budget to KAP, issuance of Government guarantees in favour of KAP or otherwise.

Following its acquisition of KAP, Uniprom invested over €20 million in improving KAP's production capacity. In 2018, €8.75 million was invested for the general overhaul of cells, a gasification project, equipment and infrastructure, and for the construction of Aluminium Alloy Ingots. In 2019, approximately €10.5 million was realised, of which €6 million relates to the completion of the Aluminium Alloy Ingots construction. Furthermore, a €10 million investment is expected to be made for the construction of a log production and an aluminium wire production plant.

KAP arbitration proceedings

In 2013, following the bankruptcy of KAP, CEAC initiated arbitration proceedings against the Government for approximately €600 million in compensation in connection with losses sustained due to KAP's bankruptcy. On 11 January 2017, the arbitration tribunal rejected CEAC's claims and ordered it to pay the Government €295,000 for CEAC's breach of its investment obligation, and €29,000 for its failure to submit annual investment reports. The arbitration tribunal ruled that both amounts were to be paid with interest accruing from 30 January 2015. The tribunal also referred to its findings, as regards CEACs claim that the state of Montenegro failed to pay €8.72 million in electricity subsidies to KAP. Montenegro has subsequently initiated proceedings for recognition of the award in Cyprus as CEAC has not compensated Montenegro under the terms of the arbitration award.

In March 2014, CEAC also filed a claim before the International Centre for Settlement of Investment Disputes ("**ICSID**") against the Government based on the bilateral investment agreement between Montenegro and Cyprus. The expected amount of the claim was approximately €600 million. In this claim, CEAC alleged, among other things, that the bankruptcy administrator of KAP took certain actions that resulted in the overall decrease of the value of the bankruptcy estate to the detriment of CEAC. The final decision in the ICSID arbitration proceedings was rendered on 26 July 2017. The tribunal found that CEAC was not a qualified investor under the pertinent bilateral investment agreement and thus, rejected jurisdiction. CEAC was ordered to pay the costs of the proceedings in the amount of approximately $0.2 million and €0.7 million. After the final decision was made, CEAC initiated annulment proceedings in accordance with the ICSID Convention and requested that the enforcement of the decision on costs be postponed. In addition, En + Management Limited, a company registered in the British Virgin Islands ("**En + Management**"), guaranteed the payment of the amount due in the event that CEAC fails to pay. The ICSID ad hoc committee issued a decision rejecting CEAC's request for annulment on 1 May 2018 and awarded Montenegro the costs of representation. On 28

February 2019, EN + Management paid Montenegro $0.2 million and €0.7 million due under the guarantee. According to the ICSID ad hoc committee's decision of annulment, CEAC's outstanding debt to Montenegro is €0.3 million.

On 14 October 2016, CEAC initiated proceedings before the District Court in Cyprus against Montenegro, Veselin Perišić (the bankruptcy administrator of KAP) and Montenegro Bonus DOO for damages allegedly arising from investment in KAP. The Cypriot court rejected jurisdiction over all of the defendants and accepted the argument that CEAC failed to show that the alleged damage occurred in Cyprus. In addition, the court found that CEAC failed to act in good faith, since it concealed the fact that the UNCITRAL arbitral award had already been rendered against it.

On 5 December 2016, Oleg Deripaska personally initiated arbitration proceedings against Montenegro in connection with his investment in KAP, alleging breach of the Russian BIT. Mr. Deripaska alleged that Montenegro accepted the obligations from the Russian BIT and that the application of this agreement was confirmed by the exchange of notes between Montenegro and Russia on 4 and 16 August 2006.

On 15 October 2019, the arbitral tribunal decided: (i) that Russian BIT was not applicable to Montenegro; (ii) to accept the jurisdictional objection raised by Montenegro on that basis; (iii) to reject jurisdiction to decide on the claims; and (iv) to award all costs in favour of Montenegro in the total amount of over €1.6 million. A request for payment and appropriate instructions were sent to the legal representatives of Mr. Deripaska, the claimant, however, he has not yet carried out the payment in accordance with the decision of the tribunal. On 15 January 2020, pursuant to Section 36 of the Swedish Arbitration Act (as the seat of the arbitration was in Stockholm), the claimant submitted a motion to the Swedish Court of Appeal, requesting that the arbitral award be set aside. Mr. Deripaska supplemented this motion on 15 May 2020. The legal representatives of Montenegro are preparing a response to these motions.

Steel Mill

Similar to KAP, the Steel Mill was also adversely affected by the global financial and economic crisis in 2008 and 2009, with production being completely suspended in October 2009. The plant resumed production in 2010 but at relatively low volumes. In addition, during late 2010 and early 2011, production was affected by the workforce striking as a result of non-payment of wages. The financial obligations and operations of the Steel Mill were subsequently restructured. As part of the debt restructuring and redundancy programme, the Government provided a guarantee in respect of a €26.3 million loan from Credit Suisse.

In 2011, the Government guarantee was called after Credit Suisse accelerated payment of the loan following a covenant breach and the Steel Mill was unable to repay the loan. In the same year, the Government repaid the loan in full. Steel production at the Steel Mill continued to decline, and in 2012, the Steel Mill entered into bankruptcy proceedings which resulted in assets being sold to the Turkish TOSYALI Group (the "**TOSYALI Group**") for €15 million. The TOSYALI Group has invested over €10 million in improving production capacity and has announced an investment plan of between €3 million to €6 million for the period 2021-2024 which will primarily depend on the global steel market. Upon completion of the investments, the Steel Mill is expected to produce approximately 240,000 tonnes of finished products from high quality steel and employ up to 550 people. Montenegro's environment protection agency has issued an approval for the operation of this steel mill, Toscelik Niksic, which will be valid for the period between 2019 and 2024.

Construction

Overview

The Montenegrin construction sector has experienced significant growth since the downturn following the global financial and economic crisis, which is largely attributed to recent extensive capital budget investments by both central and municipal governments (see "*Public Finance*").

The value of completed construction works in 2016 increased by 31.5 per cent. as compared to 2015. The total effective work hours on construction works in 2016 increased by 16.7 per cent. as compared to 2015. The value of new contracts for buildings decreased by 7.8 per cent. while the value of new contracts on other constructions increased by 69.7 per cent. in 2016 as compared to 2015. These substantial increases are a reflection of the low level of new constructions that took place in 2015. In 2016, 983 building permits were issued, a 27.2 per cent. increase as compared to 2015. Of the 983 issued permits, 664 were issued to individuals and 319 were issued to legal entities. The total number of residential units for which building permits were issued in 2016 increased by 0.4 per cent. as compared to 2015.

The value of completed construction works in 2017 increased by 51.5 per cent. as compared to 2016. In the same period, effective work hours on construction works increased by 24.5 per cent. as compared to 2016. The value of completed construction works in 2016 increased by 31.5 per cent. as compared to 2015. In 2017, 1,050 building permits were issued, a 6.8 per cent. increase from 2016. Of the 1,050 issued building permits, 652 were issued to individuals while 398 were issued to legal entities. The total number of residential units for which building permits were issued in 2017 increased by 47.7 per cent. as compared to 2016.

The value of completed construction works in 2018 increased by 24.9 per cent. as compared to 2017. In the same period, effective work hours on construction works increased by 10.9 per cent. as compared to 2017. In 2018, 295 building permits were issued, a 71.9 per cent. decrease from 2017 due to changes in the methodology and regime of issuing building permits based on the newly adopted the Law on Spatial Planning and Building of Objects, which came into force on 1 January 2018. Of the 295 building permits issued, 123 were issued to individuals and 172 were issued to legal entities.

The value of completed construction works in 2019 increased by 10.7 per cent. as compared to 2018. In the same period, effective work hours on construction works increased by 4.2 per cent. as compared to 2018. In 2019, 197 building permits were issued, a 33.2 per cent. decrease from 2018. Of the 197 building permits issued, 77 were issued to individuals and 120 were issued to legal entities.

The value of completed construction works in the first six months of 2020 decreased by 6.9 per cent. as compared to the first six months of 2019. In the same period, effective work hours on construction works decreased by 1.7 per cent. as compared to the first six months of 2019. In the first six months of 2020, 120 building permits were issued, a 30.4 per cent. increase from the first six months of 2019. Of the 120 building permits issued, 53 were issued to individuals and 67 were issued to legal entities.

The following table sets the value of completed construction works as per the type of construction for the years ended 31 December 2015, 2016, 2017, 2018 and 2019:

	Year ended 31 December				
	2015	**2016**	**2017**	**2018**	**2019**
			(€ million)		
Residential buildings	107.5	106.4	140.4	185.7	186.4
Non-residential buildings	100.6	85.5	113.2	97.4	291.3
Transport infrastructure	86.1	171.8	350.6	402.0	339.6
Energy, Pipelines and Telecommunications	60.2	57.7	43.9	101.5	48.8
Complex industrial construction	6.2	29.1	2.1	11.4	1.3
Other construction	1.7	3.2	1.2	3.7	13.5
Total	**362.4**	**453.7**	**651.4**	**801.7**	**881.0**

Source: MONSTAT

Bar-Boljare Motorway

In 2015, construction began on the Montenegro section of the Bar-Belgrade Motorway, connecting the Adriatic coast of Montenegro, through the capital Podgorica, with the Serbian border and the Pan-European Highway Corridor 11 (a major European motorway). Currently, this route has a two-lane road, with some parts of it being considered potentially unsafe. The new motorway is expected to not only be much safer than the existing route but also have a much higher pass-through capacity and enable faster transportation of people and goods, all of which is expected to result in significant economic and other benefits. As a result, the motorway project is seen as a strategic project by the Government and one of the elements of the country's integration strategy for accession to the EU. Other expected benefits of the motorway project are:

- shortening the overall travel time through the country;
- enabling better economic integration of the southern (coastal area and the capital) and northern parts of the country, which would allow for easier labour force movement and the development of winter tourism resorts in the north, thus positioning Montenegro as a full-year tourist destination in line with the Government's tourism strategy;
- increasing the number of tourists visiting Montenegro, by offering an adequate alternative to travelling via plane (approximately 30 per cent. of tourists come from the countries that were part of the former Yugoslavia);
- increasing the turnover of the Port of Bar by improving its connection to Corridor 11, which would allow for increased exports from the landlocked countries in the region (such as Serbia, Montenegro's largest trading partner). The Port of Bar currently handles only 2 million tons of freight per year, and its capacity is 4.5 million tons per year;
- facilitating access to regional markets and decreased direct purchase costs, improving the business environment in Montenegro; and
- engagement of local construction companies, equipment and materials providers, and labour in the construction process, which will have further positive effects on the economy.

The total length of the motorway is expected to be 170 kilometres, with the priority section being Smokovac to Matasevo, which is expected to be 41 kilometres in length and cover an area of approximately 350 square kilometres.

Based on preliminary traffic forecasts by the Ministry of Transport and Maritime Affairs and macro projections of the Ministry of Finance, total toll revenue and other commercial revenues are projected to be €31.3 million in 2024 and reaching €44 million in 2030. All toll revenue is earmarked for loan repayment. Although the financial net present value ("**NPV**") of the project is expected to be negative (toll payments will not be enough to service debt payments relating to the project and the Government will need to subsidise debt repayments by €32 million per year), the overall economic NPV is expected to be positive when taking into account the improved road safety and the other economic benefits described above. A more precise data forecast will be available upon the completion of a new comprehensive feasibility study of the entire Bar-Boljare Motorway. At this stage only one section (Smokovac-Matasevo) is expected to be finalised by 2021, while the construction of the four remaining sections have not yet commenced.

In July 2013, the Government selected the Chinese companies China Communications Construction Company International ("**CCCC**") and the China Road and Bridge Corporation ("**CRBC**") as the winning bidders for the construction of the Smokovac-Matasevo section of the motorway. Their bid for the construction of this section was €809.6 million, and the construction is expected to be completed in 2021. CCCC and CRBC are expected to carry out 70 per cent. of the total construction works, with the remaining 30 per cent. reserved for domestic construction companies (to be sub-contracted by CCCC and CRBC). Of this amount, 85 per cent. is financed by a loan facility from the Chinese EXIM Bank to the State of Montenegro and 15 per cent. is provided by the State of Montenegro through its capital budget (with approximately €25 million to €30 million paid through the budget in each year of construction).

In February 2014, Montenegro's then Transport Minister Ivan Brajovic and representatives of CRBC signed a framework agreement and an agreement on the project design, construction, and procurement and installation of equipment and materials for the construction of the Smokovac-Matasevo section. In 2014, the Government and the Chinese EXIM Bank signed a Preferential Buyer Credit Loan Agreement in the amount of U.S.$944.0 million, the terms of which allow Montenegro to draw down up to 85 per cent. of the total financing required for construction of the Smokovac-Matasevo section of the motorway. The loan facility has a six-year grace period, 14-year repayment period and a fixed interest rate of 2 per cent. per annum. The loan facility is denominated in U.S. Dollars. Although the loan facility does not include a fixed U.S. Dollar/euro exchange rate, the construction agreement between the CRBC and the Ministry of Transport and Maritime includes a fixed U.S. Dollar/euro exchange rate of U.S.$1.3718 to €1.00. When the Government has fully drawn down the Chinese EXIM Bank loan facility, it plans to put in place hedging arrangements. The Government drew down approximately U.S.$10.83 million in 2016, U.S.$205.59 million in 2017, U.S.$186.47 million in 2018, U.S.$159.9 million in 2019 and U.S.$25.6 million as at the nine month period ended 30 September 2020. It is expected that in the longer term, approximately half of the project's expenditures will be covered from road toll fee revenues.

Utility infrastructure on the Montenegrin Coast

In 2012, the Government commenced a project for the construction of a water supply and sewage network in the municipality of Herceg Novi, for the construction of 35.3 kilometres of water supply and wastewater pipes, 11 pumping stations and a sea outfall and a wastewater treatment plant (WWTP). The project is expected to supply enough water for the equivalent of approximately 65,300 individuals. Works on the project for the construction of water and sewage system in Herceg Novi were taken over in June 2019 and the defects notification period (DNP) expired in June 2020. The implementation of the project for the construction of the WWTP has been delayed, and it is expected to be completed in 2020. The estimated total costs for the project are approximately €30 million.

In 2014, the Government commenced a project for the construction of a joint WWTP for the municipalities of Kotor and Tivat, with the expected capacity of 72,000 population equivalent. Construction of the WWTP began in 2015 and was completed in August 2016. Upon completion of the DNP, and after training of the future operator's staff, the operation of the plant was taken over by the employers (in July 2020). The estimated total costs for the project were approximately €10 million. Further training on the operation and maintenance of the WWTOP is expected to be conducted in 2021 as it was delayed due to the COVID-19 pandemic.

In 2016, the construction of a sewage network in the city of Cetinje was completed. The Government is planning to build a wastewater treatment plant in Cetinje. These utility infrastructure projects are expected to significantly improve conditions for citizens and tourists on the Montenegrin coast. During 2019, hydraulic works on some parts of the water supply network in the Old Royal Capital of Cetinje were completed. In addition, in the summer of 2019, the project of reconstruction and installation of 3.5 kilometres of water supply pipeline was implemented, as well as the works on reconstruction of the settling tank at Podgor, both of which are aimed to improve the existing water supply system in the Old Royal Capital of Cetinje. The works on these projects are expected to be completed in 2021 following delays resulting from the COVID-19 pandemic.

The construction of the sewerage network in the Municipality of Ulcinj, which will measure 14.46 kilometres in length, commenced in December 2019 and is expected to be completed in 2021 following delays resulting from the COVID-19 pandemic. The project aims to improve of Ulcinj's municipal infrastructure as well as the environmental quality in the Port Milena channel and the south of the Montenegrin Coast.

In addition, the construction and rehabilitation of the water supply infrastructure for wastewater disposal in Ulcinj is expected to commence in the first quarter of 2021. The design documentation have been prepared, technical review has been performed for a number of project measures, the expropriation procedure for privately owned real estate has begun, and the procedure for transferring ownership over property on which the infrastructure will be constructed from the state to the municipality is coming to a close. The tender procedure for the award of the works contract is in the final stage and the preparations for contractual negotiations with the first-ranked bidder are in progress. The project envisages the construction and rehabilitation of 58 total structures, including among others: approximately 90km of pipelines for potable water and sewage, water tanks, basic process control systems, springs, pumping stations and wells, and aims to contribute to the protection of the environment in the Ulcinj region and establish sustainable infrastructure for the water sector on the Montenegrin coast.

Transportation and Communications

In 2019, the number of railway passengers remained at the same level as in 2018. Railway cargo transportation volumes increased by 17 per cent. in 2019 as compared to 2018, while in 2018, railway cargo transportation volumes decreased by 39.71 per cent. as compared to 2017.

The number of railway passengers increased by 7.0 per cent. in 2018 as compared to 2017, while the number of highway passengers increased by 0.6 per cent. during the same period. The number of passengers at the airports during 2019 was 8.1 per cent. higher than in 2018. The number of passengers at the airport during 2018 was 12.3 per cent. higher than in 2017. The volume of maritime transportation in ports increased by 4.5 per cent. in 2019 as compared to 2018 and decreased by 6.3 per cen.t in 2018 as compared to 2017. The average air cargo transporting volume decreased by 4.5 per cent. in 2019 as compared to 2018 and increased by 6.3 per cent. in 2018 as compared to 2017. The number of conversation minutes in fixed telephony in 2019 recorded a decrease of 15.7 per cent. while mobile telephony increased by 1.1 per cent. as compared to 2018. In 2018, the number of conversation minutes in fixed telephony recorded a decrease of 17.2 per cent. while mobile telephony increased by 2.6 per cent. in 2018 compared to 2017.

The number of railway passengers decreased by 22.3 per cent. in 2017 as compared to 2016, while the number of highway passengers increased by 0.4 per cent. and intra-city passengers increased by 2.7 per cent. The number of passengers whose journey begins or terminates at the airport during 2017 was 17.7 per cent. higher than in 2016. Railway cargo transportation volume increased by 38.5 per cent. in 2017 as compared to 2016. Maritime cargo transportation volumes declined by 20.5 per cent. in 2017 as compared to 2016. The average air cargo transporting volume during 2017 was 3.7 per cent. less than in 2016. The number of conversation minutes in fixed telephony recorded a decrease of 19.7 per cent. while mobile telephony decreased by 0.4 per cent. in 2017 compared to 2016.

The number of railway passengers decreased by 2.82 per cent. in 2016 as compared to 2015, while the number of highway passengers grew by 8.0 per cent. and intra-city passengers by 6.1 per cent. The number of passengers whose journey begins or terminates at the airport during 2016 was 12.9 per cent. higher than in 2014. Railway cargo transportation volumes increased by 17.22 per cent. in 2016 as compared to 2015. Maritime cargo transportation volumes decreased by 4.0 per cent. in 2016 as compared to 2015. The air cargo transporting volume during 2016 was 10.9 per cent. higher than in 2015. The number of conversation minutes in fixed telephony and mobile telephony recorded a decrease of 16.0 per cent. and an increase of 1.3 per cent., respectively, in 2016 as compared to 2015.

Significant planned investments in the country's road and railway infrastructure are expected to contribute to future growth in the transportation sector. This includes the ongoing investments on the Bar-Boljare Motorway

(See "*—Construction—Bar-Boljare Motorway" above and "Balance of Payments and Foreign Trade—Privatisation*") as well as the improvements to the Bar-Vrbnica railway line. In 2020, a number of works were undertaken with respect to the Bar-Vrbnica railway line, which included the overhaul of the Kos-Trebaljevo section, rehabilitation of five concrete bridges and rehabilitation works of tunnel no. 206 with further works planned for 2021. In addition, further investments are expected for the Vrbnica-Bar and the Nikšić-Podgorica railway lines, among others, in 2021.

Agriculture

Agriculture is one of the most important aspects of Montenegro's economy. The agriculture sector contributed 6.3 per cent. to Montenegro's GDP in 2019. This sector also accounts for a significant share of Montenegro's gross value added (inclusive of forestry and fisheries), which amounted to €316.5 million in 2019.

The Government is focused on developing the agriculture sector both for domestic use and to support the growing tourism sector. Total incentives for the agriculture sector in 2020, 2019, 2018, 2017 and 2016, which principally comprise government subsidies, were €60.7 million, €52.4 million, €39.95 million, €31.5 million and €22.6 million respectively, and subsidies are expected to continue to increase a minimum of €1 million per year over the next four years. The increased subsidies have led to positive developments in Montenegro's agricultural production such as an increase in the number of hectares of total utilised agricultural land by 0.62 per cent. in 2019 as compared to 2016. In the period between 2016 and 2019, growth was recorded in all categories of agricultural land: arable land increased by 1.4 per cent., orchards increased by 1.4 per cent., vineyards increased by 0.7 per cent. and meadows and pastures increased by 0.6 per cent. The production of dairy also experienced significant growth, with the production of dairy products increasing by 13.8 per cent. in 2019 as compared to 2016. According to the Labour Force Survey, the number of employees in agriculture increased by 11.1 per cent. and 6.4 per cent. in 2018 and 2017, respectively, with no change in 2019.

Montenegro's partnerships with institutions such as the European Commission and the World Bank have assisted the Government in realising its strategic growth objectives in the agricultural sector. On 8 March 2018, the Government announced its participation along with the World Bank in the Second Project of Institutional Development and Strengthening of the Agricultural Sector in Montenegro ("**MIDAS 2**"). The World Bank has approved a €30 million loan to Montenegro for the MIDAS 2 project. The objective of the project is to improve the competitiveness of agriculture and fisheries through enhanced delivery of government support in alignment with the EU's accession requirements. The original Institutional Development and Strengthening of the Agricultural Sector in Montenegro project ("**MIDAS**"), which began in 2009 and was completed in September 2016, had achieved significant results. The most successful element of MIDAS has been the provision of grants modelled after the EU's pre-accession financial support scheme (the European Union Instrument of Pre-Accession Assistance for Rural Development ("**IPARD**")) to agricultural producers through Montenegro's public institutions. Around 660 farmers received an estimated €6.53 million in MIDAS grants to enhance their agricultural production. MIDAS has also helped strengthen food safety, animal health, and rural development by providing support and services.

On 2 October 2015, the Ministry of Agriculture and Rural Development ("**MARD**") signed the first of two grant schemes funded by the European Union's IPARD and the Rural Development Institution Building Project of Montenegro. The grant scheme is implemented by MARD in collaboration with the World Bank. The European Union's objective in providing such grants is to deliver assistance for the implementation of a common agriculture policy and contribute to the sustainable adaptation of the agricultural sector. The IPARD "like 1" and IPARD "like 1.2" projects, which comprised a total of 347 projects with a support value of €5.06 million, were completed by 31 December 2017. The second grant scheme funded by IPARD and the Rural Development Institution Building Project of Montenegro, the IPARD "like 2" grant, has contributed to 77 projects in 2019 with a support value of €3.9 million, bringing the total number of IPARD-funded projects in Montenegro to 424 with a support value of €8.96 million.

The investment in the IPARD II programme 2014-2020 ("**IPARD II**") by MARD is estimated at approximately €90 million, of which approximately €39 million is from EU grant support, €13 million from Government contributions, and €38 million from private contributions. The implementation of the IPARD II started with two public calls: Measure 1, which invests in physical agricultural assets; and Measure 3 which invests in physical assets for the processing of agricultural and fishery products. As of the date of this Prospectus, the contracting for both public calls has been finished and 265 contracts have been signed with agricultural producers and processors, representing a total investment of €29.1 million and total potential support of €14.4 million. Two new public calls have been published for Measures 1 and 3.

Out of 52 applications received for second public call for Measure 3, 24 have signed the contracts, with a total investment of €15.3 million and possible support of €6.4 million.

For the second public call for Measure 1, 180 applications have been submitted, with total amount of investments €20.8 million and possible support of €11.2 million. The contracting has begun and currently 4 contracts have been signed with potential amount of investments €0.13 million and potential support €0.07 million.

In 2020, Montenegro received the entrustment for implementation of the Measure 7. Due to the COVID-19 pandemic, publishing of public calls through this Measure have been postponed for the first quarter of 2021. In addition, in February 2015, Montenegro became a member of the International Fund for Agriculture Development ("**IFAD**"). The first field visit was held in April 2015, seeking to identify priority areas for the Montenegro-IFAD partnership. On 6 April 2017, the first project, the Rural Clustering and Transformation Project, was approved. The project has a value of €13.6 million with an implementation area spanning the Niksic, Savnik, Zabljak, Mojkovac, Bijelo, Polje, Berane and Petnjica municipalities.

Inflation

The following table sets out the annual inflation rate for the years ended 31 December 2016, 2017, 2018 and 2019 and the ten months ended 31 October 2020, based on the consumer price index.

	Year ended 31 December				**Ten months ended 31 October**
	2016	**2017**	**2018**	**2019**	**2020**
			(%)		
Inflation (annual 12-month average rate of change)	(0.3)	2.4	2.6	0.4	(0.1)

Source: MONSTAT

In 2016, annual inflation, as measured by the consumer price index, was negative 0.3 per cent. and was largely a result of decreases in categories of the consumer price index such as food and transport. There was an average annual price decrease recorded in transport (decrease of 4.7 per cent.), food and non-alcoholic beverages (decrease of 0.7 per cent.), other goods and services (decrease of 0.7 per cent.), household furnishings (decrease of 0.2 per cent.) while prices in education remained unchanged. Average annual growth was recorded in the following categories: clothing and footwear (increase of 3.0 per cent.), alcoholic beverages and tobacco (increase of 2.8 per cent.), restaurants and hotels (increase of 2.4 per cent.), health (increase of 2.1 per cent.), communication (increase of 0.4 per cent.), housing, water, electricity, gas and other fuels (increase of 0.3 per cent.), recreation and culture (increase of 0.1 per cent.).

In 2017, annual inflation, as measured by the consumer price index, was 2.4 per cent., principally due to increases in the prices of food and non-alcoholic beverages (increase of 8.4 per cent.), transportation services (increase of 6.8 per cent.), restaurants and hotels (increase of 4.5 per cent.), health services (increase of 2.7 per cent.), clothing and footwear (increase of 2.4 per cent.), and housing, water, electricity, gas and other fuels (increase of 1.7 per cent.).

In 2018, annual inflation, as measured by the consumer price index, was 2.6 per cent., primarily due to increases in the prices of food and non-alcoholic beverages (increase of 0.4 per cent.), alcoholic beverages and tobacco (increase of 19.5 per cent.), and water, electricity, gas and other fuel (increase of 0.8 per cent.). The growth in oil prices, which has significantly affected the level of inflation in Montenegro over the year, slowed and the annual rate of inflation at the end of the year (1.6 per cent.), was considerably lower than the previous months.

In 2019, annual inflation, as measured by the consumer price index, was 0.4 per cent., primarily due to increases in prices of food and non-alcoholic beverages (increase of 3.1 per cent.) which was offset by decreases in prices of clothing and shoes (decrease of 5.2 per cent.).

In the ten months ended 31 October 2020, annual CPI inflation was negative 0.1 per cent. primarily due to decreases in prices of restaurants and hotels (decreases of 1.4 per cent.), which was offset by increases in prices of clothing and footwear (increase of 0.3 per cent.).

Wages

The following tables set out the average monthly gross and net wages in different sectors for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020.

Average Monthly Gross Wages

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
			(€)		
Total	765	766	773	770	783
Agriculture, forestry and fishing	772	789	854	838	790
Mining and quarrying	901	1,016	1,010	990	1,038
Manufacturing	639	617	599	597	620
Electricity, gas, steam and air conditioning supply	1,302	1,318	1,299	1,314	1,360
Water supply, sewerage, waste management and remediation activities	704	719	719	701	730
Construction	650	684	667	663	657
Wholesale and retail trade, repair of motor vehicles and motor recycles	524	547	569	562	578
Transportation and storage	812	818	835	830	794
Accommodation and food service activities	580	621	642	620	592
Information and communication	1,052	1,063	1,105	1,104	1,050
Financial and insurance activities	1,384	1,503	1,512	1,514	1,454
Real estate activities	1,014	1,013	1,124	1,101	1,063
Professional, scientific and technical activities	615	668	655	645	696

Average Monthly Gross Wages

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
Administrative and support service activities ..	502	508	524	519	540
Public administration and defence, compulsory social security..............................	889	887	910	905	903
Education...	732	732	746	744	803
Human health and social work activities	820	822	833	830	923
Arts, entertainment and recreation..................	656	648	645	640	635
Other service activities	702	663	726	688	713

Source: MONSTAT

Average Monthly Net Wages[(1)]

	Year ended 31 December			Six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
			(€)		
Total..	510	511	515	570	523
Agriculture, forestry and fishing......................	527	540	580	659	537
Mining and quarrying	599	675	672	398	694
Manufacturing	426	411	399	868	416
Electricity, gas, steam and air conditioning supply	858	869	858	467	897
Water supply, sewerage, waste management and remediation activities	470	479	480	444	488
Construction	435	457	447	376	441
Wholesale and retail trade, repair of motor vehicles and motor recycles............................	350	366	381	554	388
Transportation and storage..............................	541	546	557	415	532
Accommodation and food service activities	388	415	429	731	395
Information and communication.....................	697	703	732	1,002	697
Financial and insurance activities	917	994	1,000	732	967
Real estate activities	674	673	748	430	712
Professional, scientific and technical activities	410	445	437	348	465
Administrative and support service activities ..	336	341	352	600	363
Public administration and defence, compulsory social security..............................	590	589	603	496	601
Education...	489	489	498	557	537
Human health and social work activities	552	553	559	424	619
Arts, entertainment and recreation..................	434	431	427	460	422

	Average Monthly Net Wages[1]				
	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
Other service activities	467	444	484	570	475

Source: MONSTAT

Note:

(1) Net wages are calculated by subtracting taxes and contributions from gross wages.

The Government imposed strict controls on the number of newly-hired public sector employees between 2010 and 2014. This factor, along with public wage reductions and the elimination of various bonuses for public sector employees, is expected to make private sector employment more attractive and eventually lead to increased overall productivity in the economy. Given that the growth in wages in the public sector prior to 2010 jeopardised, to a certain extent, reforms in the labour market aimed at making private sector employment more attractive and even threatened to restrict the ability of the private sector to employ workers, the Government's decision to reduce public sector wages acted not only as a fiscal measure but also as a structural economic reform.

In November 2015, the Public Sector Wage Bill was passed, which aimed to establish more control over the public sector and its wage policy, correct wage inequalities across different branches of government for same or similar jobs, increase transparency of wages and set salaries so that they are proportionate to the level of job responsibility. The Public Sector Wage Bill is expected to cut public spending and promote equality in public institutions. While the minimum wage was increased to a 2017 figure of €288.1 per month, this measure did not have a significant impact on employment. While average gross and net wages grew between 2015 and 2017, the Government is currently designing a public-sector staffing optimisation plan and intends to limit public wage increases until a comprehensive public administration reform can be adopted.

In 2019, the average gross monthly wage was €773, while the average net monthly wage was €515. In 2018, the average gross monthly wage was €766, while the average net monthly wage was €511. In 2017, the average gross monthly wage was €765, while the average net monthly wage was €510. In 2016, the average gross monthly wage was €751, while the average net monthly wage was €499. The average gross monthly wage as at 31 December 2018 was 2.0 per cent. higher as compared to 31 December 2016. In addition, the average net monthly wage as at 31 December 2018 was 2.3 per cent. higher as compared to 31 December 2016.

As of 30 June 2020, there was a minimum wage increase of 15 per cent. (from €193 to €222), and a reduction of employee contributions for health insurance of 2.0 per cent. (from 4.3 per cent. to 2.3 per cent.). The average gross monthly wage was €783, an increase of 1.3 per cent., as of 30 June 2020 compared to the previous year. The average net monthly wage was €523, a decrease of 8.2 per cent., as of 30 June 2020 compared to the previous year.

Employment

The following table sets out the number of employed and unemployed persons in Montenegro and their respective participation rates as at 31 December for 2016, 2017, 2018 and 2019 and as at 30 June 2019 and 2020.

	As at 31 December				As at 30 June	
	2016	2017	2018	2019	2019	2020
			(thousand)			
Total population (mid-period)	618.6	622.3	622.2	622.0	622.0	621.09
Labour force[(1)]	272.5	273.2	279.9	287.3	289.5	267.3
Persons in employment.....................	224.2	229.3	237.4	243.8	248.0	226.6
Unemployed persons[(2)]	48.3	43.9	42.5	43.4	41.5	40.7
Inactive persons[(3)]	227.4	226.6	219.9	213.1	211.4	233.5
			(%)			
Employment rate[(4)]	44.8	45.9	47.5	48.7	49.5	45.2
Activity rate[(5)]	54.5	53.7	56.0	57.4	57.8	53.4
Unemployment rate[(6)]	17.7	17.6	15.2	15.1	14.3	15.2

Source: MONSTAT

Notes:

(1) Labour force includes persons in employment and unemployed persons.

(2) The term "unemployed" refers to persons who in the reference week did not work (i.e. not in paid employment or self-employment and did not do any paid work); in the past four weeks were actively seeking work (i.e. specific steps were taken to seek paid employment or self-employment); or were currently available for work (i.e. within two weeks). Persons who had found a job to start later are also included among unemployed persons.

(3) "Inactive persons" are those, aged 15 years and over, who are not classified as persons in employment or as unemployed persons

(4) "Employment rate" represents the percentage of persons in employment in the total population aged 15 and above.

(5) "Activity rate" represents the percentage of active population in the total population aged 15 and above.

(6) "Unemployment rate" represents the percentage of unemployed persons in the total active population in the total population aged 15 and above.

Although there have been certain improvements, the labour market is still characterised by a high rate of inactive labour, a low employment rate, long-term unemployment, a structural mismatch between demand and supply and a high unemployment rate, particularly among the young. A particular challenge in the labour market is new legislation in the field of social policy which enables an early exit from the labour market for certain categories of women, creating unemployment on one hand and work in the grey economy on the other.

In the six months ended 30 June 2020, the employment rate dropped to 45.2 per cent., down from 48.7 per cent. in the same period of the previous year, while the labour force (age group 15-64) dropped by 4.0 per cent. During the same period, the unemployment rate increased by 0.1 per cent. as compared to 2019. During the six months ended 30 June 2020, the labour market averaged 5.3 thousand newly employed persons.

The labour market showed positive trends in 2019, with increased employment and activity, and the lowest level of unemployment since 2006. According to the Labour Force Survey, employment in 2019 grew by 2.7 per cent. and had an unemployment rate of 15.1 per cent. The activity rate was at a record level of 57.4 per cent. in 2019, 1.4 percentage points higher as compared to 2018.

In 2018, employment stood at 47.5 per cent. in respect of the population over the age of 15 years. As compared to 2017, this figure represented a 1.6 per cent. increase. The number of employed persons increased by 2.3 per cent. in 2017 as compared to 2016. The size of the population willing and able to work in 2017 was 273.2 thousand, out of which 83.9 per cent. (or 229.3 thousand) were employed, while 16.1 per cent. (or 43.9 thousand) were unemployed.

In 2018, the rate of unemployment decreased by 2.4 per cent. as compared to 2017. In real terms, the number of unemployed persons in 2018 amounted to approximately 42.5 thousand, which represented a 3.2 per cent. decrease as compared to 31 December 2017. The unemployment figure in 2017 amounted to approximately 43.9 thousand, which represented a decrease of 9.1 per cent. as compared to 2016. Unemployment in Montenegro decreased by 2.6 per cent. between 2019 and 2016, as compared to an average decrease of 2.4 per cent. across Europe in the same period.

In 2017, the Law on Social Protection was reformed to ensure cost-effectiveness, better targeting of assistance and the reduction of disincentives for women to work. This reform has revolutionised social protection laws in Montenegro as the Government seeks to reduce unemployment figures in Montenegro which have been negatively impacted by the Law on Social and Child Protection, which provides that mothers with three or more children who have been registered with the Employment Agency of Montenegro ("**Agency**") for 15 years or more are eligible for lifetime benefits. This has encouraged many mothers to remain registered with the Agency and thus not seek employment. In the 11 months ended November 2015, females claiming a monthly allowance from the Agency increased by 2,500 or 15 per cent.

Other factors contributing to employment conditions include seasonal tourism. Unemployment typically declines in the summer periods when businesses require services to cope with the influx of people to the country. The Law on the Employment and Work of Foreigners ("**Foreigners Act**") gave non-resident employees equal rights and obligations to those of Montenegrin residents. Given that persons employed in the tourism or tourism-related sectors accounted for a substantial portion of the labour force, unemployment may be subject to seasonal fluctuations throughout the year.

Pension System

The pension system in Montenegro is in deficit, with benefits consistently exceeding contributions. Past reforms have undermined its sustainability, while an aging population will put further pressure on pension expenditures. Pensioners below the current statutory retirement age of 66 for men and 61 years and 9 months for women constitute about one-third of pensioners and pose a particularly high cost for the pension system. The total receipts of the Pension and Disability Insurance Fund of Montenegro for 2019 amounted to €426,556,717.47 million, out of which €330,179,140.95 million (77.41 per cent.) was financed from contributions for pension and disability insurance and other dedicated revenues and €96,377,576.52 million (22.59 per cent.) was financed from the state budget.

Montenegro has undertaken two major pension reforms since 2004 with mixed results. The 2004 reform episode is considered largely a success by introducing a point system with a 50-50 Swiss-formula for valorisation and indexation, phasing in a higher retirement age, phasing out early retirement and tightening disability and survivor eligibility. The 2010 reform introduced, among other things, unproductive reform measures such as early retirement schemes. In addition to the two major reforms, the Government adopted a package of fiscal measures in 2012, which, among other things, suspended annual pension adjustments for 2013. After assessing the impact of these measures, the Government unfroze pension levels in 2014 until 31 December 2015. In line with the current law on pension and disability insurance, pensions are adjusted based on the movement of consumer prices and the level of change of the average salary in Montenegro.

Pension and disability insurance in Montenegro is based on a multi-pillar system that seeks to ensure long term sustainability. The system comprises the following:

- Pillar I – compulsory pension and disability insurance based on current financing through the state pension fund;
- Pillar II – compulsory pension and disability insurance based on individual capitalised savings; and

- Pillar III – system of voluntary pension savings; it is not obligatory and it is fulfilled by voluntary pension funds.

Compulsory pension and disability insurance is available to all qualifying members of the economically active working population. For every employee in Montenegro, employers allocate 5.5 per cent. of gross salary and individuals allocate 15 per cent. of gross salary to the state pension fund. Any shortfall in income is covered out of total central Government budget revenue. State pension payments and disability benefit payments are index-linked rather than being linked to average earnings.

BALANCE OF PAYMENTS AND FOREIGN TRADE

The following tables set out Montenegro's current, capital and financial accounts for the years ended 31 December 2016 to 2019, the six months ended 30 June 2019 and 2020 and the nine months ended 30 September 2019 and 2020, in millions of euros and as a percentage of GDP.

		Year ended 31 December				Six months ended 30 June		Nine months ended 30 September	
		2016	2017	2018	2019[(1)]	2019	2020[(2)]	2019	2020[(2)]
		(€ million)							
No.	**Description**								
1	**Current Account**	(642)	(691)	(793)	(744)	(645)	(638)	(404)	(857)
1.A	**Goods and Services Balance**	(888)	(1,008)	(1,113)	(1,045)	(781)	(780)	(601)	(1,104)
1.A.a	**Goods**[(3)]	(1,657)	(1,860)	(2,049)	(2,066)	(992)	(828)	(1,561)	(1242)
	Export, f.o.b.	351	382	436	466	215	182	336	279
	Import, f.o.b.	2,008	2,242	2,485	2,531	1,207	1,010	1,897	1,522
1.A.b	**Services**	769	852	937	1,020	211	48	959	138
	Revenues	1,255	1,382	1,563	1,698	534	293	1,461	493
	Expenditures	486	531	627	678	323	245	501	355
1.B	Primary income	35	88	55	17	6,7	26	(12)	62
	Revenues	258	274	304	308	160	143	233	217
	Expenditures	223	186	249	291	153	117	246	155
1.C	Secondary income	212	228	265	284	130	116	209	185
	Revenues	281	304	342	369	167	154	271	246
	Expenditures	69	75	78	85	37	38	61	61
2	**Capital Account**	1	—	—	—	—	—	—	—
3	**Financial Account, net**[(4)]	(561)	(676)	(685)	(859)	(596)	(639)	(444)	(763)
3.1	Direct investment, net (=assets-liabilities)	(372)	(484)	(322)	(305)	(227)	(259)	(226)	(345)
3.2	Portfolio investment, net (=assets-liabilities)	4	(26)	(135)	(337)	132	252	124	275
3.3	Financial derivatives, net (=assets-liabilities)	—	—	—	—	—	—	—	—
3.4	Other investment, net (=assets-liabilities)	(323)	(263)	(429)	(534)	(288)	(479)	(188)	(392)
3.5	Reserve assets of CBCG	129	97	202	316	(213)	(154)	(154)	(301)
4	**Net Errors and Omissions (3-2-1)**	80	15	108	(115)	49	(1)	(39)	93

		Year ended 31 December				Six months ended 30 June	
		2016	2017	2018	2019	2019[5]	2020
				(% of GDP)			
1	**Current Account**	(16.2)	(16.1)	(17)	(15)	(31.6)	(35.2)
1.A	Goods and Services Balance	(22.5)	(23.5)	(23.9)	(21.1)	(38.3)	(43)
1.A.a	Goods	(41.9)	(43.3)	(43.9)	(41.7)	(48.7)	(45.6)
	Export, f.o.b.	8.9	8.9	9.4	9.4	10.6	10.1
	Import, f.o.b.	50.8	52.2	53.3	51.1	59.2	55.7
1.A.b	Services	19.4	19.8	20.1	20.6	10.3	2.6
	Revenues	31.7	32.2	33.5	34.3	26.2	16.1
	Expenditures	12.3	12.3	13.4	13.7	15.9	13.5
1.B	**Primary income**	0.9	2.1	1.2	0.3	0.3	1.4
	Revenues	6.5	6.4	6.5	6.2	7.8	7.9
	Expenditures	5.6	4.3	5.3	5.9	7.8	6.5
1.C	Secondary income	5.4	5.3	5.7	5.7	6.4	6.4
	Revenues	7.1	7.1	7.3	7.5	8.2	8.5
	Expenditures	1.7	1.8	1.7	1.7	1.8	2.1
2	**Capital Account**	—	—	—	—	—	—
3	**Financial Account, net**	(14.2)	(15.7)	(14.7)	(17.4)	(29.3)	(35.3)
3.1	Direct investment, net (=assets-liabilities)	(9.4)	(11.3)	(6.9)	(6.2)	(11.2)	(14.3)
3.2	Portfolio investment, net (=assets-liabilities)	0.1	(0.6)	(2.9)	(6.8)	6.5	13.9
3.3	Financial derivatives, net (=assets-liabilities)	—	—	—	—	—	—
3.4	Other investment, net(=assets-liabilities)	(8.2)	(6.1)	(9.2)	(10.8)	(14.1)	(26.4)
3.5	Reserve assets of CBCG	3.3	2.3	4.3	6.4	(10.4)	(8.5)
4	**Net Errors and Omissions**	2.0	0.3	2.3	(2.3)	2.4	(0.1)

Source: Central Bank of Montenegro

Notes:

(1) Percentage of GDP was calculated using GDP data for 2019 amounting to €4,950.7 million.

(2) Preliminary data for the six months ended 30 June 2020 and 30 September 2020. Percentage of GDP was calculated using preliminary GDP data for the six months ended 30 June 2020 amounting to €1,813.6 million.

(3) Methodological notes: Data on merchandise trade in the Balance of Payments of Montenegro are compiled in accordance with the special trade system. The Central Bank makes adjustments of data obtained from MONSTAT for the balance of payments purposes in accordance with the IMF methodology (Balance of Payments Manual, sixth edition, 2009). Data on export and import of goods in balance of payments are on f.o.b. basis.

(4) The financial account shows the principle of the net increase in assets and liabilities. Assets/liabilities increase and decrease are shown with a plus (+) and a minus (-) sign, respectively. The net value of the items is calculated as the difference between net assets and net liabilities.

(5) Percentage of GDP was calculated using GDP data for the six months ended 30 June 2019 amounting to €2,037.6 million.

Current Account

Between 2016 and 2019, the current account deficit decreased by 1.2 percentage points relative to GDP. In 2017, the current account deficit amounted to €691.5 million and it was 7.7 per cent. higher compared to 2016. The increase in the current account deficit was mainly due to a higher deficit on the goods account compared to the previous year, reflecting a significant increase in imports for highway construction investments in tourism and energy projects.

The service account in 2017 generated a surplus of €851.8 million, which was 10.8 per cent. more than in 2016. Total revenues from services amounted to €1.4 billion, or 10.2 per cent. more than in 2016, while expenditures amounted to €530.6 million (9.3 per cent. increase from 2016). Estimated travel-tourism revenues in 2017 amounted to €921.7 million, 10.3 per cent. higher than in the previous year. On the primary and secondary income accounts, there was a surplus in 2017 amounting to €316.7 million, 28.4 per cent. higher compared to 2016, mainly due to an increase in remittances from abroad and transfers from EU funds.

The current account deficit was €792.7 million in 2018, an increase of 14.6 per cent. compared to 2017, due to an increased deficit on the goods account and a decrease of surplus in the primary income account. The surplus on the services account amounted to €936.6 million in 2018, an increase of 9.9 per cent. compared to 2017. Total revenues from services increased by 13.1 per cent. in 2018 to €1.6 billion compared to 2017. Surplus on the primary income account decreased by 37.8 per cent., while surplus on the secondary income account increased by 15.9 per cent. in 2018 as compared to 2017.

The current account deficit was €744.2 million in 2019, a decrease of 6.1 per cent. compared to 2018, due to a surplus realised on the services and secondary income accounts. The surplus on the services account amounted to €1.0 billion in 2019, an increase of 8.9 per cent. compared to 2018. Total revenues from services increased by 8.6 per cent. in 2019 to €1.7 billion compared to 2018. Surplus on the primary income account decreased by 69.4 per cent., while surplus on the secondary income account increased by 7.3 per cent. in 2019 as compared to 2018.

According to preliminary data, the current account deficit was €638.4 million for the six months ended 30 June 2020, a decrease of 1.0 per cent. compared to the same period in 2019, due to a decrease in the deficit realised on the goods account and an increased surplus in the primary income account. The surplus on the services account amounted to €48 million for the six months ended 30 June 2020, a decrease of 77.2 per cent. compared to the same period in 2019. Total revenues from services decreased to €292.7 million in the six months ended 30 June 2020, a decrease of 45.2 per cent. compared to the same period in 2019. Surplus on the primary income account increased by 278.3 per cent., while surplus on the secondary income account decreased by 10.8 per cent. in the six months ended 30 June 2020 as compared to the same period in 2019.

The following table sets out the amount of worker remittances for the periods indicated.

	Year ended 31 December				**Six months ended 30 June**		**Nine months ended 30 September**	
	2016	**2017**	**2018**	**2019**	**2019**	**2020**	**2019**	**2020**
					(€ thousand)			
Worker Remittances [1]........	469,836	499,402	537,299	560,336	270,891	252,772	403,473	415,232

Note:

(1) Includes compensation of employees (of which wages of sailors working on foreign vessels are significant), personal transfers and social benefits (pensions).

Capital and Financial Account

In the period from 2016 to 2019, the financial account recorded a significant increase of net inflow of capital, due to FDI, portfolio and other investments inflows. Net FDI decreased by 5.4 per cent. in 2019 compared to 2018 due to decrease in FDI inflows on the basis of equity investments. In 2018 and 2017, net inflow from portfolio investment was recorded, while in 2016 net outflow was recorded in this account. This was due to decrease in outflows from the portfolio investments. In 2019, net inflow based on portfolio investment amounted to €336.9 million, which was an increase of 149.5 per cent. compared to 2018. During the same period, an increase in net inflows in other investment accounts was recorded due to a simultaneous increase of inflows and decrease of outflows in this account.

According to preliminary data, in the six months ended 30 June 2020, net inflow amounting to €639.4 million was recorded in the financial account, a 7.3 per cent. increase as compared to the same period in 2019. This was due to an increase in net inflows recorded in the FDI and other investment accounts. Net FDI inflow increased by 14.1 per cent. for the six months ended 30 June 2020 compared to the same period in 2019 due to lower FDI outflow and a simultaneous increase in inflow arising from intercompany debt. Portfolio investments saw a net outflow of €252.2 million as a result of the repayment of Eurobonds. In the six months ended 30 June 2020, other investment accounts registered an increase in net inflow of 66.1 per cent. due to higher borrowing during the period.

Foreign Trade

Foreign Trade in Goods

In 2016, the total volume of foreign trade in goods amounted to €2,387.5 million, which represents an increase of 10.6 per cent. as compared to 2015. The increase was mainly due to an increase in import of goods by 12.0 per cent., specifically the import of machinery and transport equipment which grew by 29.3 per cent., and the import of metal products which grew by 52.3 per cent. The export of goods grew at a rate of 2.7 per cent., due to an increase in the export of medical and pharmaceutical products of 49.8 per cent, as well as an increase in the export of metal products of 95.9 per cent.

In 2017, the total volume of foreign trade in goods amounted to €2,675.0 million, which represents an increase of 12.0 per cent. as compared to 2016. Growth of export of goods by 14.0 per cent. in 2017 was determined by an increase in the export of bauxite ores, and base metals waste and scrap of 79.6 per cent., as well as an increase in the ad hoc export of floating structures for Lithuania. Import of goods recorded an 11.7 per cent. increase in 2017, primarily due to the increase in the import of electricity of 65.0 per cent., as well as an increase in imports of industrial machinery of 44.2 per cent. and iron and steel of 38.7 per cent.

In 2018, the total volume of foreign trade in goods amounted to €2,953.7 million, which represents an increase of 10.4 per cent. as compared to 2017. Export of goods increased by 7.7 per cent. due primarily to a 120.8 per cent. increase in the export of electricity, as well as an increase of 81.3 per cent. in the export of medical and pharmaceutical products. The import of goods grew by 10.9 per cent. in 2018 due to an increase of 15.5 per cent. in the import of machinery and transport equipment and an increase of 31.0 per cent. in the import of oil and petroleum products.

In 2019, the total volume of foreign trade in goods amounted to €3,016.3 million, which represents an increase of 2.1 per cent. as compared to 2018. Export of goods increased by 3.8 per cent. primarily due to an increase in the export of miscellaneous finished products of 115.6 per cent., increase in the export of cork and wood of 21.8 per cent., as well as an increase of 13.7 per cent. in the export of electricity. The import of goods grew by 1.8 per cent. in 2019 due to an increase of 66.8 per cent. in the import of electricity, an increase of 24.1 per cent. in the import of medical and pharmaceutical products, and an increase of 7.0 per cent. in the import of food and live animals.

In the six months ended 30 June 2020, total volume of foreign trade in goods amounted to €1,206.0 million, which represents a decrease of 15.8 per cent. compared to the same period in 2019, due to the negative shock of the COVID-19 pandemic, and the decline of imports by 16.3 per cent., led by the decline in the import of electricity of 39.2 per cent, and oil and petroleum products of 37.6 per cent. Export of goods declined by 12.6 per cent, due to a decrease in the export of iron and steel by 30.3 per cent, and electricity by 28.6 per cent.

The following tables set out geographic distribution of Montenegrin exports and imports of goods for the years 2016, 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020.

Exports

	Year ended 31 December								Six months ended 30 June			
	2016		**2017**		**2018**		**2019**		**2019**		**2020**	
	(€ million)	*(%)*	*(€ million)*	*(%)*	*(€ million)*	*(%)*	*(€ million)*	*(%)*	*(€ million)*	*(%)*	*(€ million)*	*(%)*
Croatia	2.25	0.69	2.63	0.71	3.66	0.91	3.05	0.73	1.2	0.6	1.12	0.66
Serbia.................................	82.04	25.18	66.00	17.76	93.08	23.26	107.92	25.98	46.3	24.1	39.72	23.66
Slovenia	15.10	4.63	19.98	5.38	28.17	7.04	25.42	6.12	10.1	5.2	19.16	11.42
Bosnia and Herzegovina......	26.64	8.17	47.19	12.70	30.91	7.72	29.81	7.17	15.9	8.3	8.04	4.79
Kosovo	19.18	5.89	22.63	6.09	17.06	4.26	29.39	7.07	11.1	5.8	10.00	5.96
Hungary	34.93	10.72	31.68	8.53	46.15	11.53	44.96	10.82	23.7	12.3	14.31	8.52
Germany	13.13	4.03	9.32	2.51	13.00	3.25	15.48	3.73	8.4	4.4	8.79	5.23
Italy	17.39	5.34	13.10	3.53	13.87	3.47	11.30	2.72	6.1	3.16	2.83	1.69
Turkey	5.12	1.57	22.28	6.00	12.91	3.20	14.32	3.45	10.1	5.3	3.33	1.98
Albania	14.39	4.42	10.94	2.95	12.93	3.23	13.25	3.19	6.1	3.2	5.26	3.13
Russia	2.24	0.69	2.18	0.60	2.14	0.50	1.80	0.43	1.1	0.5	0.60	0.35
Others	93.45	28.68	123.55	33.26	126.23	31.55	118.78	28.59	52.3	27.2	54.72	32.6
Total..................................	325.85	100.00	371.46	100.00	400.11	100.00	415.48	100.00	192.3	100.0	167.86	100.00

Source: MONSTAT

Imports

	Year ended 31 December								Six months ended 30 June			
	2016		**2017**		**2018**		**2019**		**2019**		**2020**	
	(€ million)	*(%)*	*(€ million)*	*(%)*	*(€ million)*	*(%)*	*(€ million)*	*(%)*	*(€ million)*	*(%)*	*(€ million)*	*(%)*
Serbia.................................	457.28	22.18	495.70	21.52	492.03	19.27	500.44	19.24	234.9	18.95	199.51	19.22
Greece................................	109.47	5.31	135.20	5.87	164.47	6.44	156.08	6.00	68	5.49	50.19	4.83
China	185.18	8.98	221.42	9.60	256.62	10.00	221.95	8.53	106.87	8.62	103.03	9.93
Bosnia and Herzegovina......	111.63	5.41	151.95	6.60	155.56	6.09	163.2	6.28	78.7	6.35	62.62	6.03
Italy	153.04	7.42	168.72	7.32	189.98	7.44	185.02	7.11	90.925	7.34	66.10	6.37
Germany	217.24	10.54	196.10	8.51	234.58	9.19	244.17	9.39	115.25	9.30	93.48	9.00
Croatia	110.81	5.37	131.14	5.69	152.90	5.99	150.64	5.79	69.55	5.61	54.73	5.27
Netherlands.........................	32.62	1.58	36.79	1.60	40.27	1.58	42.77	1.64	20.14	1.62	22.34	2.15
Slovenia	46.39	2.25	55.21	2.40	56.90	2.23	54.74	2.10	26.96	2.17	21.70	2.09
Turkey	70.56	3.42	71.11	3.10	87.86	3.40	135.81	5.22	64.96	5.24	57.66	5.55
Spain..................................	43.98	2.13	47.72	2.07	44.33	1.74	48.23	1.85	22.62	1.82	22.85	2.20
Others	523.49	25.39	592.46	25.72	678.07	26.55	697.72	26.83	341	27.48	283.89	27.35
Total..................................	2.061,69	100.00	2,061.61	100.00	2,553.58	100.00	2,600.77	100.00	1239.55	100.00	1038.09	100.00

Source: MONSTAT

Composition of Foreign Trade in Goods

The following tables set out the composition of Montenegro's exports of goods in euros and as a percentage of total exports for the years 2016, 2017, 2018 and 2019, the six months ended 30 June 2019 and 2020 and the ten months ended 31 October 2019 and 2020.

	Year ended 31 December				Six months ended 30 June		Ten months ended 31 October	
	2016	**2017**	**2018**	**2019**	**2019**	**2020**	**2019**	**2020**
				(€ thousand)				
Manufactured goods classified chiefly by material[(1)]	86,569.21	103,993.35	107,192.91	97,205.00	3,660.3	41,870.77	82,303.00	63,456.00
Crude materials, inedible, except fuels	71,967.74	102,740.45	81,329.00	89,452.00	3,089.8	37,808.45	74,354.00	65,858.00
Mineral fuels, lubricants and related materials	51,647.99	45,984.89	81,979.48	90,251.00	570.5	28,629.95	76,888.00	42,593.00
Food and live animals	27,337.27	26,400.20	23,680.21	25,398.00	3,660.3	10,386.65	19,623.00	23,101.00
Machinery and transport equipment	31,134.64	41,633.21	35,112.17	40,452.00	3,089.8	15,106.16	30,649.00	29,359.00
Beverages and tobacco	22,506.42	20,551.33	21,671.65	23,254.00	570.5	6,103.67	15,164.00	11,881.00
Chemicals and related products, not elsewhere specified	17,587.97	17,574.31	29,577.55	28,936.00	3,660.3	14,114.43	24,414.00	23,732.00
Miscellaneous manufactured articles	11,564.98	11,999.12	12,896.66	19,849.00	3,089.8	5,629.98	16,061.00	18,084.00
Commodities and transactions not classified elsewhere in the SITC	4,950.00	0.00	6,100.00	0.00	570.5	8,000.00	18.00	3,937.00
Animal and vegetables oils, fats and waxes	579.78	586.64	567.69	687.00	3,660.3	208.83	577.00	419.00
Total exports	**325,846.00**	**371,463.49**	**400,107.31**	**415,484.00**	**3,089.8**	**167,858.88**	**340,051.00**	**282,420.00**

Source: MONSTAT

Note:

(1) Manufactured goods include metals (including aluminium and steel), timber, leather, fur, paper, minerals and textiles.

	Year ended 31 December				Six months ended 30 June	
	2016	2017	2018	2019	2019	2020
	(% of total)					
Manufactured goods classified chiefly by material(1)	26.57	28.00	26.79	23.40	25.73	24.94
Crude materials, inedible, except fuels	22.09	27.66	20.33	21.53	22.26	22.52
Mineral fuels, lubricants and related materials	15.85	12.38	20.49	21.72	22.05	17.06
Food and live animals	8.39	7.11	5.92	6.11	4.54	6.19
Machinery and transport equipment	9.56	11.21	8.78	9.74	9.11	9.00
Beverages and tobacco	6.91	5.53	5.42	5.60	3.71	3.64
Chemicals and related products, not elsewhere specified	5.40	4.73	7.39	6.96	7.13	8.41
Miscellaneous manufactured articles	3.55	3.23	3.22	4.78	5.36	3.35
Commodities and transactions not classified elsewhere in the SITC	1.52	0.00	1.52	0.00	0.00	4.77
Animal and vegetables oils, fats and waxes	0.18	0.16	0.14	0.17	0.10	0.12
Total exports	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: MONSTAT

Note:

(1) Manufactured goods include metals (including aluminium and steel), timber, leather, fur, paper, minerals and textiles.

The following tables set out the composition of Montenegro's imports of goods in euros and as a percentage of total imports for the years 2016, 2017, 2018 and 2019, the six months ended 30 June 2019 and 2020 and the ten months ended 31 October 2019 and 2020.

	Year ended 31 December				Six months ended 30 June		Ten months ended 31 October	
	2016	2017	2018	2019	2019	2020	2019	2020
	(€ thousand)							
Food and live animals	397,228	425,957	443,299	474,391	214,640	201,353	396,354	326,063
Mineral fuels, lubricants and related materials	187,539	255,904	273,437	284,052	129,870	81,490	241,930	140,007
Machinery and transport equipment	527,754	552,498	638,085	578,146	290,331	232,172	479,908	403,253
Manufactured goods classified chiefly by material(1)	341,790	409,606	462,097	471,122	228,759	187,474	393,050	311,087
Miscellaneous manufactured articles	279,239	295,491	342,536	371,969	176,032	136,861	314,945	248,135
Chemicals and related products, not elsewhere specified	203,403	227,833	251,127	274,839	133,252	138,118	228,437	224,793
Beverages and tobacco	70,777	79,910	74,999	81,828	35,541	28,620	70,299	49,906

	Year ended 31 December				Six months ended 30 June		Ten months ended 31 October	
	2016	2017	2018	2019	2019	2020	2019	2020
				(€ thousand)				
Crude materials, inedible, except fuels	37,261	42,350	50,209	52,434	26,852	21,347	44,272	34,117
Animal and vegetables oils, fats and waxes	13,937	13,948	14,034	11,972	4,267	6,726	9,275	9,924
Commodities and transactions not classified elsewhere in the SITC	2,759	7	3,757	18	8	3,925	18	3,937
Total imports	**2,061,688**	**2,303,503**	**2,553,580**	**2,600,771**	**1,239,551**	**1,038,091**	**2,178,488**	**1,751,222**

Source: MONSTAT

Note:

(1) Manufactured goods include metals (including aluminium and steel), timber, leather, fur, paper, minerals and textiles.

	Year ended 31 December				Six months ended 30 June	
	2016	2017	2018	2019	2019	2020
				(% of total)		
Food and live animals	19.27	18.49	17.36	18.24	17.32	19.40
Mineral fuels, lubricants and related materials	9.10	11.11	10.71	10.92	10.48	7.85
Machinery and transport equipment	25.60	23.99	24.99	22.23	23.42	22.37
Manufactured goods classified chiefly by material[(1)]	16.58	17.78	18.10	18.11	18.46	18.06
Miscellaneous manufactured articles	13.54	12.83	13.41	14.30	14.20	13.18
Chemicals and related products, not elsewhere specified	9.87	9.89	9.83	10.57	10.75	13.31
Beverages and tobacco	3.43	3.47	2.94	3.15	2.87	2.76
Crude materials, inedible, except fuels	1.81	1.84	1.97	2.02	2.17	2.06
Animal and vegetables oils, fats and waxes	0.68	0.61	0.55	0.46	0.34	0.65
Commodities and transactions not classified elsewhere in the SITC	0.13	0.00	0.15	0.00	0.2	0.38
Total imports	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: MONSTAT

Note:

(1) Manufactured goods include metals (including aluminium and steel), timber, leather, fur, paper, minerals and textiles.

In the ten months ended 31 October 2020, total exports amounted to €282.4 million, a decrease of 16.9 per cent. as compared to the ten months ended 31 October 2019. Exports of goods decreased due to a decline in the export of iron and steel by 66.8 per cent., and electricity by 70.1 per cent. Total imports of goods amounted to €1,751.2 million in the ten months ended 31 October 2020, a decrease of 19.6 per cent. as compared the same period last year. This decrease was due to the negative impact of the COVID-19 pandemic. Imports recorded a decrease of 19.6 per cent., led by a decline in the import of electricity of 67.0 per cent, and oil and petroleum products of 54.2 per cent.

In 2019, total exports amounted to €415.5 million, an increase of 3.8 per cent. as compared to 2018. This was primarily due to a 115.6 per cent. increase in the export of miscellaneous finished products, an increase in the export of cork and wood of 21.8 per cent., as well as an increase of 13.7 per cent. in the export of electricity and bauxite ore of 4.0 per cent. Total imports of goods amounted to €2,600.8 million in 2019, an increase of 1.8 per cent. as compared to 2018. This was primarily due to an increase of 66.8 per cent. in the import of electricity, an increase of 24.1 per cent. in the import of medical and pharmaceutical products, and an increase of 7.0 per cent. in the import of food and live animals.

In 2018, total exports amounted to €400.1 million, which was an increase of 7.7 per cent. as compared to 2017. This increase was primarily due to an increase in the production of electricity. Total imports of goods amounted to €2,553.6 million, which was an increase of 10.9 per cent. as compared to 2017. This increase was primarily due to an increase in imports of machinery and equipment for investment projects.

In 2017, total exports amounted to €371.1 million, which was an increase of 13.9 per cent. as compared to 2016. This increase was primarily due to an increase in the production of aluminium and bauxite ore. Total imports of goods amounted to €2,303.0 million, which was an increase of 11.7 per cent. as compared to 2016. This increase was primarily due to an increase in imports of materials for investment projects.

In 2016, total exports amounted to €325.8 million, which was an increase of 2.7 per cent. as compared to 2015. Total imports of goods amounted to €2,061.7 million, which was an increase of 12 per cent. as compared to 2015. This increase was primarily due to an increase in imports of materials for investment projects and fuels.

Foreign Trade in Services

A strong tourism-driven service trade surplus was recorded in the period 2016-2019. The surplus in the services account continued to expand and amounted to approximately 20.0 per cent. of GDP in this period. Surplus in the services account amounted to €1.0 billion, €936.6 million, €851.8 million and €769.1 million in 2019, 2018, 2017 and 2016, respectively. The 2019 surplus amounted to 20.6 per cent. of GDP based on preliminary data. Services revenue amounted to €1.7 billion, €1.6 billion and approximately €1.4 billion in 2019, 2018 and 2017, respectively. Such growth between 2018 and 2019 can be attributed to an increase in revenues from other business services, transport services and travel tourism services. Meanwhile, services expenditure amounted to €677.6 million, €626.8 million, €530.6 million and approximately €485.5 million in 2019, 2018, 2017 and 2016, respectively. Estimated revenues from travel-tourism amounted to €1.1 billion, €1 billion, €921.7 million and €835.7 million in 2019, 2018, 2017 and 2016, respectively.

According to preliminary data, the services account had a surplus of €48 million in the six months ended 30 June 2020, a 77.2 per cent. decrease as compared to the same period in 2019. Total revenues from services amounted to €292.7 million, a decrease of 45.2 per cent. as compared to the same period in 2019, while expenditures for services amounted to €244.7 million, a 24.3 per cent. decrease as compared to the same period of 2019. The estimated revenues from travel-tourism amounted to €54.8 million in the six months ended 30 June 2020, a decrease of 78.5 per cent. as compared to the same period in 2019.

The following table sets out the export and import of goods and services as a percentage of GDP for the years 2016 to 2019 and the six months ended 30 June 2020.

	Year ended 31 December				Six months ended 30 June
	2016	2017	2018	2019	2020
			(% of GDP)		
Export of goods and services	40.6	41.1	42.9	43.7	26.2
Import of goods and services	63.1	64.5	66.7	64.8	69.2
Total (export and import of goods and services)	**103.7**	**105.6**	**109.6**	**108.5**	**95.4**

Source: MONSTAT and Central Bank of Montenegro

FDI

In the period from 2016 to 2019, net FDI inflows recorded a decrease. In 2016, net FDI amounted to €371.6 million or 9.4 per cent. of GDP, which covered around 57.9 per cent. of the current account deficit. This was primarily due to a one-off dividend payment in 2016 of accumulated profit from the previous years of one company. In 2017, net FDI amounted to €484.3 million, 30.3 per cent. higher compared to 2016, due to a significantly lower outflow compared to 2016. In 2018, net FDI amounted to €322.5 million, the lowest level since 2004 due to a significant increase in outflow from the repayment of intercompany debt as well as the withdrawal of the equity investments of a large company. In 2019, net FDI amounted to €305.1 million, 5.4 per cent. lower compared to 2018, due to a decrease in inflows based on equity investments. FDI over the period from 2016 to 2019 was, on average, approximately 8.4 per cent. of GDP per year. In 2018, the countries with the largest FDI inflow were Italy (€116.7 million), Azerbaijan (€105.3 million), Russian Federation (€66.8 million), Serbia (€65.5 million), Hungary (€59.5 million), Turkey (€53.2 million) and Great Britain (€48.3 million). The countries with the largest FDI inflows in 2019 were Azerbaijan (€168.3 million), Russian Federation (€70.0 million), Hungary (€54.4 million), United Arab Emirates (€48.5 million), Switzerland (€43.7 million), Serbia (€39.2 million) and Germany (€37.1 million).

According to preliminary data, net FDI inflow amounted to €259.2 million in the six months ended 30 June 2020, an increase of 14.1 per cent. compared to the same period of 2019. This increase was due to a smaller outflow compared to the same period in 2019 and an increase in inflow from intercompany loans. The countries with the largest FDI inflow in the six months ended 30 June 2020 were Azerbaijan (€72 million), China (€70.1 million), Italy (€42.9 million), Russian Federation (€32.6 million), Switzerland (€29.2 million), Netherlands (€14.7 million) and the United States (€14.1 million).

According to preliminary data, net FDI inflow amounted to €345.4 million in the nine months ended 30 September 2020, an increase of 52.2 per cent. compared to the same period of 2019. This increase was due to a decrease of FDI outflow of €203.4 million compared to the same period in 2019 and an increase in inflow from intercompany loans of €76.8 million.

The countries with the largest FDI inflow in the nine months ended 30 September 2020 were China (€70.4 million), Russian Federation (€46.7 million), Switzerland (€44.1 million), Italy (€43.4 million), the United States (€22.7 million), United Arab Emirates (€22.5 million) and Germany (€20.3 million). For the period 2016 through the nine months ended 30 September 2020, total FDI inflows by country were Switzerland (6 per cent.), CEFTA Member countries (7 per cent.), the Russian Federation (9 per cent.), EU countries (33 per cent.) with the remainder of FDI sources coming from other countries (45 per cent.).

Investment projects that have largely been completed or are still underway are significantly changing the local economy and include the construction of Porto Montenegro (the first Montenegrin marina for yachts in the Mediterranean), luxury hotels, such as the One&Only luxury resort in Kumbor, a prime real estate development on the Luštica Peninsula and the introduction of fibre optic cable and high-speed internet services across the country. See "*The Economy-Medium Term Outlook*".

Montenegro seeks to encourage foreign investment by offering, among other things, a flat rate tax system and low tax rates, setting both corporate and personal income taxes at 9 per cent., and allowing overseas investors to remit profits, dividends and interest freely. Having adopted the euro as its currency and with a goal of stable macroeconomic policies, the Government expects to be able to continue to attract significant levels of FDI.

The following major FDI projects are currently underway:

- ***Porto Montenegro, Investment Corporation of Dubai ("ICD")***

Development is underway at Porto Montenegro for a yacht marina and residential complex. The current plan is to extend the number of berths from 455 to 850 by the completion of the project. In addition, the current residential complex is being developed into a luxury residency, which will include private courtyards and pools. As of the date of this Prospectus, over €695 million has been invested in the project, exceeding the planned amount of €450 million.

The leading investor is the ICD, the principal investment arm of the Government of Dubai.

- ***Portonovi Kumbor, Azmont Investments***

At Portnovi Kumbor, an investment has been made to develop a wellness spa, marina, luxury beach club, Portnovi arena, conference centre and tennis academy. As at the end of December 2019, the project has had a total investment of €544 million for the expansion, and an additional €70 million has been invested into the project during the first six months of 2020, making the total amount invested in the project €614 million as at 30 June 2020, based on information available to the Government. The area under development is 25 hectares in size and is located on the shore of the Boka Bay in the Municipality of Herceg Novi. Once complete, the new facility will include a network of One&Only resorts.

The main investor in this project is Azmont Investments.

- ***Luštica Bay, Orascom Development Holding***

A coastal community with a value of approximately €1.1 billion is being developed on 690 hectares of prime real estate on the Luštica Peninsula. The integrated project plans to offer 2,080 residential units, seven hotels with a capacity of 1,370 rooms, two world-class marinas on the Adriatic Sea with 170 berths, an 18-hole golf course, commercial facilities, a town centre and basic infrastructure facilities. The first of the hotels to open was The Chedi, which was opened in 2018. Based on information available to the Government, the total amount invested in the project as of 30 June 2020 is €254 million.

The lead investor on this project is Orascom Development Holding.

- ***Mamula Island Fort, Orascom Development Holding***

The approximately €15 million redevelopment project which is in progress at the Mamula Fort on Mamula Island comprises the reconstruction of a hotel with 34 guest rooms and one memorial room.

The lead investor on this project is Orascom Development Holding.

- ***Sveti Stefan – AMAN Resorts, Adriatic Properties***

The restoration and reconstruction of the 15th century fishing village at Aman Sveti Stefan was completed in 2013.

Adriatic Properties was the key investor for this project.

- ***Blue Horizon, Qatari Diar***

Development of the €25 million Blue Horizon hotel complex, which is a five-star luxury hotel that will include sports facilities and villas, is in progress. The development is located on Plavi Horizonit's Luštica Peninsula.

Qatar Diar acquired the rights to this development and investments are expected to reach €270 million.

- ***Montenegro Holiday village, Karizma International***

The construction of *"Montenegro Holiday Village"* was carried out in the municipality of Ulcinj. As part of the approximately €32 million project, two hotels were bought out on the Ulciniska Riviera. Hotel "Belvi" has 257 rooms and Hotel "Olimpic" has 128 rooms. Further investment plans include an additional 600 units and 100 new jobs. The resort was opened in 2018.

The lead investor was Karizma International.

Other Luxury Hotels

- ***Podgorica***

Following renovations in 2016, Hilton Hotels and Resorts reopened the Hilton Podgorica which is located in the city centre and close to all public and commercial facilities.

- ***Njivice-Montrose, Northstar d.o.o. and Equest Capital Limited***

On 26 August 2013, the Government signed a long-term lease with a consortium consisting of Northstar d.o.o. and Equest Capital Limited. The lease carries with it an obligation to construct, develop and manage a tourist complex in Dobreč Rose, Herceg Novi. The minimum investment commitment is €210 million for the project which involves constructing a tourist resort with a five star hotel, villas, a mooring area and other infrastructure and facilities within 30,597 square metres of land and 17,313 square metres of water space.

Major Future Projects

Montenegro's major future projects include:

- the construction of 330 kilometres of highways (in particular, the Government is currently in the process of implementing a €809 million road development project which includes the Bar-Boljare Motorway project (see "*The Economy—Principal Sectors of the Economy—Construction—Bar-Boljare Motorway*" for additional information));
- the privatisation and expansion of the Port of Bar, upgrading the country's two airports and rail expansion and modernisation;
- expanding and reconstructing the runway areas and constructing a new terminal building at Tivat Airport, which is expected to cost up to €42 million;
- a large number of greenfield investments in tourism and the hotel industry; and
- investments in communications and other infrastructure projects.

Privatisation

The privatisation process in Montenegro gained momentum after 2001 and more than 90 per cent. of state-owned enterprises have now been privatised. In addition, the privatisation of a large number of companies, particularly in the tourism sector, has been achieved partially by sales of the relevant assets, as well as by the sale and distribution of minority stakes in the relevant companies, thereby effectively increasing the overall level of private ownership in the sector.

Privatisation in Montenegro has mainly been implemented by the sale of shares and assets by public auction, public tenders or the sale of shares pursuant to the annual privatisation plan, adopted by the Government upon the recommendation of its Privatisation Council. On 2 December 2016, the Government created a new Privatisation and Capital Projects Council (the "**PCP Council**").

The PCP Council was established by the Law on Privatisation of the Economy (Official Gazette of the Republic of Montenegro, No.23/96, 6/99, 59/00, 42/04) to manage, control and ensure the implementation of the privatisation process, in addition to proposing and coordinating activities on the implementation of capital projects in Montenegro. The Government of Montenegro decides upon the members of the PCP Council. The term of office of the members of the PCP Council is four years.

The PCP Council is headed by the Prime Minister and includes 20 other members including two Deputy Prime Ministers and eight Ministers. The PCP Council meets at least every month to make decisions relating to specific privatisations and is assisted by three Tender Commissions, which are auction commissions established to consider issues relating to the PCP Council. The annual privatisation plan sets out the main goals and other aspects of the privatisation process for the relevant year and the methods and principles to be employed in the privatisation of relevant companies in that year.

The country's privatisation process is in its final phase. The majority of companies that are still state-owned and have strategic importance in the Montenegrin economy, most notably in the tourism and industry sectors, are in the pipeline for privatisation. The Government expects that the privatisation of the remaining state-owned companies will further enhance their growth prospects and improve the competitiveness and productivity of the economy and is focused on completing the process.

The privatisation of the telecommunications and banking sectors was completed in 2005, while privatisation in the tourism industry was mainly carried out between 2001 and 2008. Following the privatisation of several Montenegrin hotels in recent years, significant investment in the tourism industry is underway, which is expected to further improve existing capacity resulting in the continued expansion and renovation of the tourism infrastructure in Montenegro, particularly hotel services. See "*—FDI*" above.

Pursuant to decisions issued by the PCP Council, public tenders shall be initiated for privatisation of HG "Budva Riviera" JSC, Budva (sale of shares following restructuring); "Castello Montenegro" JSC – Pljevlja (sale of up to 88.1327 per cent. of the share capital of the company); and "Black Metallurgy Institute" JSC – Niksic (sale of shares and/or recapitalisation).

During 2020, the Ministry of Finance published two public calls for tenders for the sale of real estate involving investments in the Municipality of Žabljak (location of the former military barracks "RadojeDakić", Žabljak), owned by the State of Montenegro and the subject of disposal of the Montenegro government, for the construction of a 4-star hotel, with accompanying facilities, however, there was no interest.

In 2020, valorisation of tourist locations has not been included in the privatisation plan due to the Law on Public-Private Partnership coming into force (Official Gazette of Montenegro, No. 73/2019 dated 27.12.2019).

MONETARY AND FINANCIAL SYSTEM

The Central Bank of Montenegro

The Central Bank of Montenegro (the "**Central Bank**") is the main monetary authority in Montenegro. The Central Bank was established in November 2000 following the promulgation of the Law on Central Bank of Montenegro and began operations in March 2001 following the adoption by the Montenegrin Parliament of the "Decision on Appointment of Members of Council of the Central Bank of Montenegro".

The Constitution specifies that the Central Bank is the institution responsible for the (i) monetary and financial stability and (ii) functioning of the banking system. In 2010, the Law on the Central Bank of Montenegro (the "**Law on the Central Bank of Montenegro**") was adopted. Under this legislation, the Central Bank is required to act independently in pursuing its objectives. In 2017, the Law was amended and the Central Bank's principal responsibilities now include, among other things, to:

- oversee the maintenance of stability of the financial system as a whole and pass pertinent regulations and measures;
- supervise, regulate and issue licences and approvals to credit institutions;
- regulate and carry out activities involving the bankruptcy, liquidation, resolution and recovery of banks;
- supervise, regulate and carry out payment system operations, grant approvals to payment institutions for the provision of payment services, grant approvals, provide payment services and supervise electronic money institutions, operate as an owner and participant in alternative payment systems;
- supervise, regulate and issue licenses to entities engaged in financial lease operations, credit and guarantee operations, factoring, purchasing of receivables and micro-lending;
- carry out activities involving the protection of rights and interests of loan consumers, users of payment services, and e-money holders;
- manage the international reserves;
- act as the payment agent, the fiscal agent and representative of Montenegro towards international financial institutions; and
- accept deposits of credit institutions, government bodies, organisations, and other parties in accordance with the applicable regulations, open and maintain accounts for credit institutions, government bodies and organisations, international financial institutions, organisations donating funds to government bodies and organisations, and other entities in accordance with the law and other regulations, and perform payment transactions.

Monetary Policy

As a result of the adoption of the euro as the Montenegrin currency, the Central Bank's ability to regulate monetary policy is limited. See "*Risk Factors—Risk Factors Relating to Montenegro—As a result of the adoption of the euro as the Montenegrin currency, the Central Bank's ability to regulate monetary policy and provide liquidity to the Montenegrin banking system is limited, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes*". The primary monetary policy instrument of the Central Bank is the mandatory reserve requirement. The Central Bank requires Montenegrin banks to hold mandatory reserves at the Central Bank's accounts (in the country and/or overseas).

In accordance with the Law on the Central Bank of Montenegro, the Central Bank is able to use open market operations, intraday and overnight liquidity loans, as well as short-term liquidity loans in order to preserve the liquidity of the banking system.

The Law on the Central Bank of Montenegro states that the Central Bank may operate in financial markets by purchasing, selling and swapping securities and other readily marketable financial instruments, and by purchasing and selling precious metals. According to the Central Bank's "Decision on open market operations" (OGM, No. 15/11), the Central Bank "shall perform open market operations by purchasing from and selling to banks securities issued by the State of Montenegro, EU Member States and international financial institutions or other securities it deems acceptable".

Fiscal and Economic Response to COVID-19

Since the COVID-19 outbreak in Montenegro and the introduction of general health protection measures, the Central Bank has implemented five packages of temporary measures aimed at preserving the liquidity position of clients by redirecting liquidity from the banking system to the economy and citizens, maintaining liquidity and credit potential, as well as long-term systemic resolution of the effects of permanent deterioration of clients' creditworthiness.

First Set of Measures by the Central Bank

On 17 March 2020, the Council of the Central Bank of Montenegro passed the decision on interim measures to mitigate the adverse effects of COVID-19 on the financial system.

During the effective period of this decision, the beneficiaries of loans granted by banks (legal persons, natural persons, entrepreneurs and other loan beneficiaries) were entitled to a moratorium on loan repayments for a period of up to 90 days (mandatory for financial institutions).

The moratorium included an interim suspension of all payments of any obligations on the basis of the loan (principal, interest rates, default interests, fees, and the like). During the moratorium, the banks' default interest on outstanding loan receivables were not calculated, enforcement proceedings or enforced collections were not initiated, nor were any other legal actions to collect receivables taken. Furthermore, no calculations of past due days, nor reclassifications of loans to a lower category were to occur.

This decision allowed legal and natural persons to increase their disposable income during this time period. The effects of the moratorium were as follows: during the mandatory moratorium 68,542 borrowers benefited from this moratorium, while the amount of loans for which a moratorium application was submitted and granted amounted to €1.31 billion, or 47.7 per cent. of total loans in the system. During these three months, banks provided temporary liquidity to the real economy in the amount approximately €155 million or 3 per cent. of GDP.

Banks could also, under clearly specified conditions, approve the restructuring of loans, including unsecured cash loans. In particular, banks can treat such loans as a new loan in the process of asset classifications and allocations of loan loss provisions if the following conditions are met: as at 31 December 2019, the loan of the loan beneficiary has not been past due for more than 90 days, the loan has not been classified as a non-performing loan and the loan has not been restructured during 2020. The loan beneficiary may provide documents to prove to the bank that its financial position has deteriorated, or will deteriorate in the near future, due to adverse effects of COVID-19 on its operations from the day of the global COVID-19 outbreak. The bank may then grant the loan restructuring if it assesses that the credit capacity of the loan beneficiary will improve upon doing so.

This measure has been widely used by the banks, and has allowed the banks to restructure €99.4 million in loans as of 31 July 2020, or 3.4 per cent. of the loan portfolio.

Second Set of Measures by the Central Bank

In order to fortify capital buffers, the Central Bank has announced a measure to temporarily prohibit banks from paying dividends to shareholders, except in the form of equity.

In order to allow quick access to liquidity of large companies in the system, the Central Bank allowed banks to temporarily increase exposures to a person or group of related parties beyond the prescribed exposure limits (25 per cent. of the bank's own funds), with prior Central Bank approval. This measure enables banks to provide additional credit funds to their clients and other legal entities whose businesses have been affected by COVID-19. This measure is especially important in situations where the business of a legal entity is predominantly directed to one bank and when establishing a business relationship and obtaining adequate credit support from another bank would require a certain period of time.

At the meeting held on 7 May 2020, the Council of the Central Bank of Montenegro passed the decision to halve the fee that banks are required to pay for withdrawing reserve requirement liquidity.

At the meeting held on 12 May 2020, the Council of the Central Bank of Montenegro passed the decision to reduce the reserve requirement rate by 2 percentage points.

The effects of the COVID-19 pandemic have resulted in a need to increase the credit potential of the banking system and in accordance with that need, the Central Bank has used its monetary policy instrument and released approximately €70 million into the system.

At its meeting held on 15 May 2020, the Council of the Central Bank of Montenegro passed the decision approving the voluntary moratorium on loan repayments. Banks could approve moratorium to loan repayments for a period of up to 90 days to loan beneficiaries whose financial situations had been adversely affected by COVID-19. The effects of the mandatory moratorium referred to €173 million in loans, or 5.9 per cent. of the loan portfolio, for 3,146 debtors, of which 47 per cent. of these debtors are related to the SME sector.

In order to strengthen its role as the lender of last resort, the Central Bank has doubled commercial repo lines with the Bank for International Settlements at €100 million.

Third Set of Measures by the Central Bank

On 30 July 2020, the Central Bank announced that banks are obligated to grant a moratorium to borrowers from two priority sectors: tourism and agriculture, forestry, and fishing. The moratorium can be used during the period from 1 September 2020 to 31 August 2021, and is available to borrowers in these sectors who are not past due on loan repayments for more than 90 days and whose loans have not been classified as non-performing assets as of 31 December 2019. Banks are also able to treat approved or restructured loans in these sectors as loans from category "A" during the duration specified above.

Fourth Set of Measures by the Central Bank

On 31 July 2020, the Governing Council of the ECB accepted the request of the Central Bank and agreed to establish a repo line (the maximum size of the repo line to be €250 million) under the Eurosystem repo facility for central banks (EUREP) dealing with the effects of the current COVID-19 crisis.

The Central Bank accepted the conditions of the ECB for an operational arrangement in which the repo line would be implemented through Deutsche Bundesbank on behalf of the Eurosystem, and that the repo line would allow for the Central Bank to borrow liquidity from the Eurosystem, through Deutsche Bundesbank, against adequate euro-denominated collateral (consisting of euro-denominated marketable debt securities issued by the euro area central governments and supranational institutions) to address any possible euro liquidity needs of Montenegrin financial institutions in the presence of market dysfunctions due to COVID-19.

The Central Bank accepted the proposal of the ECB that: (i) the maximum size of the repo line would be €250 million; (ii) the maximum maturity of any drawing be three months; (iii) the price of the repo line be set equal to the Euro short-term rate (€STR) based overnight indexed swap (OIS) rate of the corresponding maturity plus 100 basis points, or the rate applied in the Eurosystem's main refinancing operations plus 50 basis points, whichever is higher; and (iv) the Central Bank understands that the liquidity line will be temporary and valid until 30 June 2021, unless the ECB and the Central Bank agree otherwise.

Fifth Set of Measures by the Central Bank

At the end of October 2020, a decision was adopted to amend the 17 March 2020 decision on Interim Measures to Reduce Adverse Effects of the Communicable Disease COVID-19 Epidemic on the Financial System. This decision implements the fifth set of CBCG measures aimed at remedying the adverse effects of the COVID-19 pandemic. The adoption of this document has created conditions for alleviating the financial situation of certain groups that are particularly affected or will, in the coming period, be affected by the COVID-19 pandemic. The measures include the following:

- introduction of a mandatory moratorium for a period of six months for a natural person – loan beneficiaries whose employment was terminated as at 31 March 2020 or at a later date as a result of COVID-19, and who were not past due for more than 90 days as at 31 December 2020, and have not been classified as of the same date into the category of non-performing assets (the introduction of a moratorium also applies to loan beneficiaries of micro-credit financial institutions and leasing companies);
- banks will, upon the request of loan beneficiary, which is a natural person, approve the loan restructuring by extending the deadline for loan repayment, if the salary of the loan beneficiary was reduced by at least 10 per cent. as a result of negative effects of COVID-19 to the business operations of their employers. All expenses related to the establishment of a new loan repayment plan (loan processing, entering into annex to the collateral agreement, verification of the agreement, and the like) will be borne by the bank; and
- when calculating matured liabilities based on the decision on minimum standard for liquidity risk management in banks, the banks will be allowed to include 20 per cent. of demand deposits instead of 30 per cent. in the calculation of such liabilities, which will enable the banks to manage their assets in a more efficient manner.

In the coming period, the CBCG will continuously monitor the effects of the adopted measures and take timely steps for further adoption of temporary measures within its authority in order to mitigate the consequences of COVID-19 and preserve the stability of the financial system.

As at 31 October 2020, 2.4 per cent. of total loans in the banking system continued to be subject to a moratorium and 6.01 per cent. of total loans have been restructured.

Foreign Assets

Foreign assets held by the Central Bank as at 31 December in each of the years 2016 to 2019 and as at 31 October 2020 are set out in the table below. Foreign assets as at 30 June 2020 have declined due to the reduction of Government deposits upon repayment of the principle of the Eurobond which matured in March 2020 and due to the reduction in the required reserves of the banking sector which resulted in withdrawals.

	As at 31 December				As at 31 October
	2016	**2017**	**2018**	**2019**	**2020**
			(€ thousand)		
Foreign assets held by Central Bank................	752,858	847,191	1,049,777	1,366,757	1,077,706

Source: Central Bank of Montenegro

Central Bank Interest Rates

The Central Bank does not have a reference interest rate. It does, however, publish weighted average lending (outstanding amounts and new business) and deposit interest rates of the banks operating in the Montenegrin banking system.

The following table sets out the weighted average aggregate lending and deposit rates (outstanding amounts) as at 31 December 2016, 2017, 2018 and 2019 and as at 31 October 2020.

	As at 31 December				As at 31 October
	2016	**2017**	**2018**	**2019**	**2020**
			(% per annum)		
Weighted average lending rate – Outstanding amounts	7.45	6.81	6.36	6.01	5.87
Weighted average lending rate – New business	6.27	6.23	5.51	6.02	6.09
Weighted average deposit rate.........................	0.93	0.69	0.56	0.41	0.40

Source: Central Bank of Montenegro

Economic, Prudential and Monetary Policy Measures in the Banking System

The impact of the global financial and economic crisis first became evident in the Montenegrin banking system in October 2008 and led to a significant reduction in bank deposits, constraints on banks' ability to access external sources of funding, reduction of inflow of funds (particularly funds relating to repayment of loans as a result of the deterioration in the financial position of borrowers, which also led to an overall decline in the quality of assets) and almost total discontinuance of banks' lending activities. This resulted in severe liquidity problems for many small businesses operating in the service sector of the Montenegrin economy, which have no alternative means of financing, and contributed to an increase in the overall level of tax arrears, particularly for the service sector.

In order to preserve the stability and safety of the banking sector, the Central Bank implemented, in co-operation with the Government, comprehensive measures to respond to the challenges posed by the crisis. In October 2008, the "Law on the Banking System Safeguards" was adopted to prevent the escalation of the crisis and to maintain the stability, liquidity and solvency of the banking sector. This law was temporary and expired at the end of 2009.

In 2010, three new laws were passed to assist with the regulation of the banking system: the Law on Protection of Deposits, the Law Amending the Banking Law and the Law on the Financial Stability Council.

The Law on Protection of Deposits has been further harmonised with relevant EU legislation: there has been a gradual increase in the amount of guaranteed deposits over time (€20,000 in 2011, €35,000 in 2012 to €50,000 in 2013), payment methods and procedures have been improved and the timeframe for proceedings related to the payment of guaranteed deposits has been shortened from 90 business days to 30 business days.

The Law Amending the Banking Law introduced measures to strengthen the role of the Central Bank in order to ensure greater stability in the banking system. It addressed certain corporate governance issues and expanded the powers of a temporary bank administrator and also provides for certain powers which may be exercised by the Central Bank in regulating banks.

The Law on the Financial Stability Council established a Financial Stability Council to monitor, identify, prevent and mitigate potential systemic risks in the financial system of Montenegro as a whole, in order to ensure the maintenance of financial system stability and avoid episodes that may lead to widespread financial distress. The members of the Financial Stability Council are the Governor of the Central Bank of Montenegro, the Minister of Finance, the President of the Council of the Insurance Supervision Agency and the President of the Securities and Exchange Commission.

In May 2020, the Central Bank adopted the "Decision Amending the Decision on Bank Reserve Requirement to be held with the Central Bank of Montenegro" to mitigate the negative effects of the COVID-19 by releasing certain bank funds used to maintain reserve requirement in order to increase the available liquidity and lending potential Montenegrin banks. Under the amended decision, the reserve requirements ratio that banks are required to deposit with the CBCG was decreased by 2 percentage points and was set to 5.5 per cent. for demand deposits and deposits with a maturity up to one year and 4.5 per cent. for deposits with a maturity of over one year. Banks are obliged to deposit the calculated reserve requirements to a reserve requirement account in Montenegro and/or with a Central Bank account located abroad, and may not allocate or deposit the reserve requirement in any other manner.

Bank Supervision

Montenegro's current banking supervision system is based on a conservative implementation of the standards set out in Basel II. Montenegro has developed new legislation to align Montenegro's banking supervision system with the requirements of Basel III and EU regulation (CRD IV and BRRD packages). This process was carried out during 2019 and 2020 and resulted in the adoption of the Law on Credit Institutions and the Law on Resolution of Credit Institutions (December 2019). This also created a legal basis for the adoption of bylaws which will further harmonise Montenegro's banking supervision system with EU regulations.

Under the current banking supervision system, if the Central Bank observes irregularities in a bank's operations, it may take one of the following actions:

- warn the bank in writing about the irregularities and request the bank to undertake actions to rectify the irregularities;
- enter into a written agreement with the bank requiring the bank to rectify the irregularities within a specified time;
- issue an order imposing certain measures to remove the irregularities;
- pass a decision ordering the bank to prepare a plan to improve the condition of the bank, which must contain detailed measures and activities taken by the bank to provide adequate management of risks the bank is exposed to in its operations and/or to remove the identified irregularities, as well as timeframes for their implementation;
- institute interim administration of the bank; or
- revoke the bank's licence.

When a bank experiences significant distress, or if a bank does not comply with measures imposed by the Central Bank designed to improve the financial position of the bank, the Central Bank may introduce interim administration at the bank. Upon appointing the interim administrator, all powers of the bank's general meeting, executive directors, governance bodies, and the bank's agents would be transferred to the interim administrator. Actions of the interim administrator for the bank's resolution may include measures designed to improve the bank's operational costs, a proposal for changes in the bank's internal organisation and management, a sale of the bank's assets, the bank's recapitalisation (including a sale of shares to new investors without the prior consent of existing shareholders), a transfer of the bank's assets and liabilities to another bank, restructuring of the bank, a proposal to the Central Bank for the revocation of the bank's licence, and other measures in accordance with the applicable law.

An interim administration may last up to six months, and may be extended for an additional three months if the Central Bank concludes that a bank under interim administration may attain the required level of own-funds or solvency ratio and meet its obligations on a regular basis. For example, off-site controls were carried out in two of three banks which were identified as being vulnerable in 2017. In that regard, the Central Bank undertook certain measures which resulted in introducing interim administration in those two banks in December 2018, and consequently bankruptcy proceedings during January and April 2019.

Law on Credit Institutions and the Law on Resolution of Credit Institutions.

In order to further the EU accession process, Montenegro undertook to harmonise its banking legislation with Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and Directive 2014/59/EU of the European Parliament and the Council establishing a framework for the recovery and resolution of credit institutions and investment firms ("**BRRD**"). The Law on Credit Institutions and the Law on Resolution of Credit Institutions were adopted in December 2019. This enabled the implementation of Basel standards on capital and liquidity (Basel III), which are directed at strengthening the capital requirements for banks and establishing a framework for new regulatory requirements regarding liquidity and additional capital requirements for systemically important financial institutions, as well as various rules and procedures set out in BRRD, including, among others, rules dealing with the initiation of resolution proceedings, resolution plans and the resolution fund. The adoption of these laws also created a legal basis for adopting a set of enabling regulations which will transpose Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, and another set for the implementation of EU regulation deriving from BRRD.

The Central Bank has recently decided to take measures to postpone the implementation of the Law on Credit Institutions and the Law on Resolution of Credit Institutions after consultation with the Association of Montenegrin Banks in July 2020. The decision was made to relieve banks and enable them to fully commit to the implementation of measures to mitigate the effects of COVID-19 and to conduct activities for implementation of Asset Quality Review ("**AQR**"). The Central Bank has prepared and adopted draft amendments to postpone he implementation of these laws for one year (effective from 1 January 2022). The documents were forwarded to further Governmental and Parliamentary procedures, but considering recent political developments in Montenegro and the change of government, it is uncertain whether these two laws will be adopted by the end of the 2020. Due to this, Central Bank is taking all necessary actions in order to adopt over 40 bylaws deriving from the Law on Credit Institutions and the Law on Resolution of Credit Institutions by the end of the current year. In most cases, application of these bylaws will go into effect starting from January 2021, although some of these new bylaws, due to complex requirements, will be applied on a phased or delayed basis envisaged to occur during the next year.

Non-Banking Financial Services Regulations

With the adoption of the Law on Financial Leasing, Factoring, Purchase of Receivables, Micro-Lending and Credit-Guarantee Operations (OGM, No. 73/17, 44/20) in 2017, Montenegro has established a regulatory framework for licensing, operations and supervision of non-banking financial institutions. This legislation regulates the most significant non-banking financial services in Montenegro and sets out the rules relating to the organisation, operations and supervision of these financial service providers. In addition, the new law, which came into force in May 2018, created a comprehensive database of non-banking financial service entities, improved the credit registry maintained by the Central Bank and expanded protections to consumers utilising non-banking financial services.

Banking Sector

Banks in Montenegro were required to prepare their financial statements in accordance with the International Accounting Standards ("**IAS**") methodology pursuant to the "Decision on Minimum Standards for Credit Risk Management in Banks" (OGM, No. 22/12, 55/12, 57/13, 44/17), the "Decision on Chart of Accounts for Banks" (OGM, No. 55/12) and the "Decision on Reports to be Submitted to the Central Bank of Montenegro" (OGM, No. 64/12). In 2017, as a result of the implementation of International Financial Reporting Standard 9 ("**IFRS 9**") to Montenegrin banks, which deals with the maintenance and preparation of banks' financial statements, the Central Bank amended the "Decision on Minimum Standards for Credit Risk Management in Banks" (OGM, No. 82/17), and adopted the new "Decision on Chart of Accounts for Banks" (OGM, No. 82/17) as well as amendments to the "Decision on Reports to be Submitted to the Central Bank of Montenegro" (OGM, No. 83/17). The "Decision on Minimum Standards on Credit Risk Management in Banks" was subsequently amended in 2018 (OGM, No. 86/18) and 2019 (OGM, No. 42/19). The "Decision on Reports to be Submitted to the Central Bank of Montenegro" was also amended in 2018 (OGM, No. 24/18, by the "Decision on Financial Services Providers" Reporting to the Central Bank of Montenegro) and in 2019 (OGM, No.37/19). The 2018 amendments dealt with repealing certain provisions and related reports in connection with the reporting of micro-credit financial institutions. In order to mitigate any negative impact on Montenegrin banks' balance sheets due to the transition from IAS 39 to IFRS 9, and to mitigate the potential adverse effect from the minimum balance requirements of IFRS 9 in relation to banks' own funds, the changes in legislation provide for a gradual adjustment period. To that end, banks will need to comply with the full level of capital requirements mandated by IFRS 9 by 2023.

On 14 October 2019, the Central Bank adopted the Decision on Macroprudential Measures related to Retail Banking Loans (OGM 58/19) for the purpose of mitigating against the risks associated with the growth of indebtedness and the failure to meet loan obligations. Under the new measures, banks are restricted from granting loans to natural persons with repayment periods longer than eight years, except in cases when those loans are secured by collateral in accordance with the provisions of the Decision on Minimum Standards for Credit Risk Management. In addition, banks with a high concentration of loans to natural persons with repayment periods that exceed six years are restricted from granting new loans with maturity over six years until they have reduced their exposure to within the specified limits, except in cases when those loans are secured by quality collateral. Further, the new measures introduced an obligation for banks to calculate certain indebtedness indicators, which will be used for analysing and determining acceptable level of indebtedness compared to the income of loan beneficiaries, by establishing adequate limits when granting loans.

A study of the application of the Decision on Macroprudential Measures related to Retail Banking Loans has led the CBCG to conclude that the conditions for its repeal have not been met. An analysis of the application of the measures over a year have established that loan insurance policies that protect banks from instances of default have appeared on the insurance market frequently. In October 2020, an amendment to the Decision on Macroprudential Measures related to Retail Banking Loans was adopted which recognises certain credit insurance policies covering default risk (issued by insurance companies with registered offices in Montenegro) as acceptable collateral.

On 16 December 2019, the Central Bank adopted the Decision amending the Decision on Chart of Accounts for Banks (OGM 71/19), which became effective 1 January 2020. The Decision on Chart of Accounts for Banks introduced the obligation of banks to start implementing International Financial Reporting Standard 16 (IFRS

16 – Leasing), which establishes the principles of the recognition, measurement, presentation and disclosure of leases for entities applying International Accounting Standards and International Financial Reporting Standards.

The following table sets out the aggregate balance sheet of the Montenegrin banking sector as at 31 December 2016, 2017, 2018 and 2019 and as at to 30 June 2020.

	As at 31 December				As at 30 June
	2016	**2017**	**2018**	**2019**	**2020**
			(€ million)		
Total Assets	3,790.3	4,182.1	4,407.1	4,603.9	4,549.9
Cash and deposit accounts at depositary institutions	798.1	882.0	869.6	866.1	867.6
Cash	142.7	171.1	198.6	167.9	228.8
Cash equivalents and deposits accounts at depositary institutions	655.4	710.9	671	606.4	688.6
Securities for dealing operations	4.2	7.2	—	—	—
Investment securities	460.9	457.4	513.6	586.1	481.3
Net loans	2,289.1	2,592.2	2,788.9	2,944	2,978.4
Equity investments	16.4	18.5	10.7	49.7	49.7
Fixed assets	63.5	65.5	63.9	53.7	65.5
Other assets	158.1	159.3	160.4	104.3	107.4
Total Liabilities and Equity	3,790.3	4,182.1	4,407.1	4,603.9	4,549.9
Total liabilities	3,304.58	3,667.9	3,894.1	4,005.9	3,942.2
Total deposits	2,885.6	3,279.1	3,470.6	3,475.8	3,300.9
Bank deposits	2.9	5.9	9.7	23.4	46.4
Non-bank deposits	2,882.7	3,273.2	3,460.9	3,461.8	3,263.9
Demand deposits	1,597.5	2,001.7	2,221.2	2,483.5	2,290.5
Term Deposits of Enterprises	397.0	417.6	273.1	216.4	210.6
Term Deposits of Individuals	819.4	777.9	600.8	512.1	489.1
Term government deposits	24.4	32.7	17.8	19.8	26.6
Term other deposits	47.2	49.1	357.7	235.9	272
Borrowed funds	310.6	280.9	297.2	370.8	472.9
Other liabilities	108.4	107.9	126.3	167.4	180.5
Equity	485.7	514.0	513.0	598.1	607.8
Paid-in capital	—	—	—	—	—
Capital reserves	121.9	99.9	70.6	72.3	41.6
Retained profits	(210.6)	(145.3)	(124.3)	(71.8)	0.95
Net loans/total assets (%)	60.4	62.0	63.3	63.9	65.5
Liquid assets/total assets (%)	24.5	25.3	22.6	20.8	20.8
Net loans/total deposits (%)	79.3	79.1	80.4	88.1	93.9
Total deposits/total liabilities (%)	87.4	89.4	89.1	86.8	83.7
Demand deposits/total deposits (%)	55.4	61.0	66.2	71.7	69.8
Borrowed funds/total liabilities (%)	9.4	7.7	7.6	9.3	12.0

	As at 31 December				As at 30 June
	2016	2017	2018	2019	2020
			(€ million)		
Borrowed funds/total assets (%)	8.2	6.7	6.7	8.1	10.4

Source: Central Bank of Montenegro

The following table lists the 13 banks in the Montenegrin banking system by market share by assets and indicates the ownership of each bank.

	As at 30 June 2020	
	Market share by assets *(per cent.)*	**Ownership**
Crnogorska Komercijalna Banka a.d.	17.66	OTP Bank (100 per cent. foreign ownership)
NLB Montenegro banka a.d.	11.99	Foreign holders (99.83 per cent.), domestic holders (0.16 per cent.), State-owned entities (0.01 per cent.)
Erste Bank	13.96	Erste & Steiermarkische Bank (100 per cent. foreign ownership)
Societe Generale Montenegro	12.22	Crnogorska Komercijalna Banka a.d. (100 per cent.)
Prva Banka Crne Gore	8.37	Domestic holders (71.81 per cent.), Foreign holders (2.98 per cent.), State-owned entities (25.21 per cent.)
Addiko Bank	4.79	Addiko International (100 per cent. foreign ownership)
Hipotekarna banka	11.41	Foreign holders (74.33 per cent.), domestic holders (24.35 per cent.), State-owned entities (1.32 per cent.)
Komercijalna Banka a.d. Budva	3.50	Komercijalna Banka a.d. Beograd (100 per cent. foreign ownership)
Universal Capital Bank a.d.	5.29	Domestic holders (99.89 per cent.), Foreign holders (0.11 per cent.)
Lovćen banka	4.43	Domestic holders (72.35 per cent.), Foreign holders (27.65 per cent.)
Zapad banka	3.85	Foreign holders (100 per cent.)
Ziraat banka	1.72	Ziraat Bankasi (100 per cent. foreign ownership)
Adriatik banka	0.83	Domestic holders (100 per cent.)

Source: Central Bank of Montenegro

In 2019, Crnogorska Komercijalna Banka a.d., a Montenegrin subsidiary of Hungarian OTP Bank, completed the acquisition of a 100 per cent. stake in Societe General Montenegro a.d., which was renamed Podgorička banka a.d. and became a member of the OTP Group. The merger process of the two banks is currently ongoing and is expected to be finalised in December 2020.

In regard to the two small banks whose licences were revoked by the Central Bank in 2019 (Atlas Bank and Invest Banka Montenegro), the Deposit Protection Fund has fully repaid the majority of deposits that were covered by the deposit protection scheme.

The following table sets out certain selected Montenegrin banking sector performance indicators as at 31 December 2016, 2017, 2018 and 2019 and as at to 30 June 2020.

	As at 31 December				As at 30 June
	2016	**2017**	**2018**	**2019**	**2020**
			(€ million)		
Assets of banks	3,790.3	4,182.1	4,407.1	4,603.9	4,549.9
Total gross loans	2,440.1	2,715.5	2,929.2	3,061.8	3,101.0
Corporate gross loans (state companies, private companies, entrepreneurs)	984.2	1,009.9	1,035.3	1,072.6	1,127.8
Households gross loans[(1)]	1,019.5	1,124.5	1,272.3	1,373.7	1,406.6
Total deposits	2,885.6	3,279.1	3,470.6	3,475.8	3,300,9
Corporate deposits	1,105.5	1,202.5	1,115.9	1,048.4	963.7
Households deposits	1,534.0	1,703.9	1,832.0	1,773.9	1,691.0
Allocated mandatory reserve requirements	188.2	161.8	—	—	—
Loan (net) to deposit ratio (%)	79.34	79.05	80.36	88.09	93.94
Return on equity ratio (%)[(2)]	1.5	7.6	8.5	10.00	5.6

Notes:

(1) Households gross loans include credit card loans. Households gross loans for 2019 and the six months ended 30 June 2020 includes gross loans of entrepreneurs.

(2) Calculated in accordance with the IMF methodology (2006).

Source: Central Bank of Montenegro

The following table sets out the average of available liquid funds and payments made by banks as at 31 December 2016, 2017, 2018 and 2019 and as at 30 June 2020.

	As at 31 December				As at 30 June
	2016	**2017**	**2018**	**2019**	**2020**
			(€ thousand)		
Available liquid bank funds (average)	865,036	929,689	994,503	957,132	947,561

Source: Central Bank of Montenegro

The outbreak of COVID-19 has negatively impacted the economic activity in Montenegro and consequently the financial position and profitability of Montenegro's banks. However, the banking system in Montenegro has remained stable, highly liquid and well capitalised.

Total assets of the Montenegrin banking sector (13 banks) stood at €4,549.9 million as at 30 June 2020. Deposits have been growing steadily since 2010, suggesting a higher degree of confidence in the banking system. However, total deposits (with escrow accounts without interests and prepayments and accruals) as at 30 June 2020 amounted to €3,300.9 million, which is a decrease of 5.03 per cent. as compared to 31 December 2019, when total deposits amounted to €3,475.8. The share of retail deposits amounted to 51.23 per cent. while the share of corporate deposits amounted to 29.19 per cent., each as at 30 June 2020.

Total gross loans (gross loans and receivables minus interest and prepayments and accruals) as at 30 June 2020 amounted to €3,101.0 million (13 banks), which represented an increase of 1.28 per cent. as compared to 31 December 2019, when total gross loans amounted to €3,061.8. During 2019, a total of €1,234.6 million of new loans was approved, which represented an increase of 4.95 per cent. as compared to 2018. Of these new loans, 58.90 per cent. represented loans approved to legal persons, while retail loans represented 41.10 per cent.

Total equity as at 30 June 2020 amounted to €607.8 million, which represented an increase of 1.63 per cent. compared to 31 December 2019, when total equity amounted to €598.1 million. The total return on equity (calculated based on the supervisory methodology i.e. average value of equity during a year), as a percentage, amounted to 5.30 per cent. as at 30 June 2020, compared to 8.66 per cent. as at the end of 2019. The decline in the return on equity was due to the banks increasing their levels of loan loss provisions, calculated in line with IFRS 9 expected credit loss framework, in light of the COVID-19 pandemic..

In October 2020, the Central Bank initiated the AQR of the Montenegrin banking system, in accordance with the IMF and European Commission recommendations. The AQR is being carried out in accordance with the methodology based on the June 2018 "Asset Quality Review Phase 2 Manual" of the ECB which is tailored to the local institutional and legal frameworks that are specific to the market. The Central Bank has hired an international audit firm as a consultant to manage the AQR process. The review covers all banks in the banking system and is being carried out by several international audit firms. The process is expected to be finalised by May 2021.

Loan Exposure

The following table sets out certain statistics relating to total outstanding loans and non-performing loans ("**NPLs**") of Montenegrin banks as at 31 December 2016 to 30 June 2020. NPLs are defined as (i) loans past due for more than 90 days and (ii) overdue loans that meet certain other qualitative criteria relating to the quality of the collateral, financial condition of the borrower and other matters.

	As at 31 December				**As at 30 June**
	2016	**2017**	**2018**	**2019**	**2020**
NPLs (€ million)	248.6	197.0	196.9	144,6	163,2
Total outstanding loans (€ million)	2,440.1	2,715.5	2,929.2	3,061,8	3,101.0
NPLs/total loans and other claims (%)	10.29	7.29	6.72	4.72	5.26
Reserves for loan losses/total loans (%)	6.6	4.7	6.3	4.77	4.84
NPL coverage ratio[(1)]	60.7	62.5	75.8	82.47	78.17
Equity/net loans (%)	21.2	19.8	18.4	22.29	21.94

	As at 31 December				As at 30 June
	2016	2017	2018	2019	2020
Capital adequacy ratio	16.01	16.37	15.63	17.73	19.56

Source: Central Bank of Montenegro

Note:

(1) NPL coverage ratio is higher if regulatory reserves are used for loan losses instead of value adjustments for loans (96.41 per cent. as at 31 December 2019 and 88.26 per cent. as at 30 June 2020).

From 2016 through the end of 2019, there has been a significant improvement in the asset quality indicators, with a reversal of the trend in the first half of 2020 due to the effects of COVID-19 pandemic. The proportion of NPLs as a percentage of total loans decreased to 5.26 per cent. as at 30 June 2020 (13 banks) from 10.29 per cent. as at 31 December 2016 (15 banks). As at 30 June 2020, the total amount of NPLs further decreased to 163.2 million from 248.6 million as at 31 December 2016. As at 30 June 2020, the ratio of loans past due for more than 90 days to total loans and other claims was 2.74 per cent. as compared to 8.79 per cent. as at 31 December 2016. As at 30 June 2020, eight out of 13 banks had NPL ratios below the average. Montenegrin banks submit quarterly reports to the Central Bank showing the performance of their NPLs measured against the banks' individual NPL-related strategy. Banks with high levels of NPLs are placed under specific supervisory measures by the Central Bank, which include monitoring and implementation of supervisory action plans.

Between 2015 and 2017, the strategy for reducing NPLs in Montenegro was implemented through the "Podgorica approach", which comprised two pieces of legislation: (i) the Law on Voluntary Restructuring of Debts towards Financial Institutions, which was applicable between May 2015 and May 2017; and (ii) the Decision on amending the Minimum Standards of the Credit Risk Management, which came into force in January 2014. Because the legislation did not fully achieve its anticipated benefits, the Central Bank introduced an amendment to these measures with the adoption of the Law on Voluntary Restructuring of Debts towards Financial Institutions in 2017, which extended the scope of loans that could be eligible for voluntary restructuring, simplified the restructuring process, and added tax benefits to enhance the process of the voluntary restructuring of debt.

Further, in July 2017, amendments to the Decision on Minimum Standards of the Credit Risk Management required banks to inform the Central Bank of each commenced restructuring process, and the results of any such restructuring process. As a result of the aforementioned legislative amendments, from 22 June 2017 to 8 February 2018, the total amount of restructured loans, signed agreements and initiated restructurings reached €26.1 million. These measures were extended to May 2019 in order to maintain the positive effects on restructurings which are expected to lead to a further decrease of NPLs. The law on voluntary restructuring is no longer in place. However, the provisions from the Decision on Minimum Standards of the Credit Risk Management which require banks to inform the Central Bank of each commenced restructuring process are still in place

The Decision Minimum Standards of the Credit Risk Management was further amended in December 2018 to enable full comparability of data on NPLs and restructured loans in Montenegro's banking sector with the EU Member States' data. The amendments were adopted in July 2019 and relate to: (i) the harmonisation of the definition of NPL and the classification of restructured loans with the EU regulations; (ii) the treatment of foregone exposures for the purpose of reporting; (iii) the valuation of collateral when classifying; and (iv) the allocation of provisions for potential credit losses in banks. The amendments to the Decision on Minimum Standards for Credit Risk Management in Banks were made in accordance with the relevant EU regulations and were effective beginning January 2020.

The solvency ratio maintained by a bank must be at least 10 per cent. As at 30 June 2020, the average solvency ratio of all banks operating in Montenegro was 19.56 per cent. There is no prescribed solvency ratio in relation to tier I capital. Regulatory capital of the bank (own funds) consists of the regulatory capital and the supplementary capital. The regulatory and the supplementary capital and the deduction items from the capital of the bank are calculated in accordance with the Decision on Capital Adequacy, which seeks to track the relevant provisions of EU Directive 2006/48EC and EU Directive 2006/49EC.

As part of the EU accession process, Montenegro has opened negotiations for Chapter 9 (*Financial Services*), which refers to banking sector operations. The harmonisation of Montenegro's banking regulations with Basel III and CRD IV is being carried out primarily through the adoption of new banking legislation within the framework of the European Commission's "Twinning Project" entitled "Support to Regulation of Financial Services".

Progress has been made toward drafting regulations which will achieve full compliance with the Directive 2013/36/EU regarding the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and compliance with Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms. Recent amendments to Montenegro's banking regulations also significantly incorporate the Basel III standards. Furthermore, in cooperation with EU experts through the Twining Project "Support to Regulation Financial Services", a Quantitative Impact Study was implemented to demonstrate how amendments to the Central Bank's regulations affect banks' liquidity, solvency and risk exposure. The Quantitative Impact Study was successfully completed in July 2020.

Stock Exchange

The NEX Montenegro and the Montenegro Stock Exchange A.D. were established in 2001 and 1993, respectively. The two exchanges merged on 31 December 2010 and, with effect from 10 January 2011, a new united stock exchange has been operating in Montenegro as the Montenegro Stock Exchange.

The following tables set forth the trading volume, number of transactions and certain other information relating to the Montenegrin Stock Exchange as at 31 December for the years 2017, 2018 and 2019, and as at 30 June 2019 and 2020.

	As at 31 December			As at 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
Volume (€ million)[(1)]	47.4	147.4	318.2	195.91	14.167
Number of transactions	5,706	3.243	2,887	1,457	1,055

Source: Security Commission and Montenegro Stock Exchange

	As at 31 December			As at 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
			(€ million)		
Market capitalisation — Montenegro Stock Exchange	2,854.9	3,045.12	3,455.1	195.91	14.167
MNSE10 Index[(1)]	776.69	837.08	777.61	1,457	1,055
MONEX Index[(1)]	10,175.4	10,840.49	11,403.61	195.91	14.167

Source: Montenegro Stock Exchange

Note:

(1) The Montenegro Stock Exchange utilises two indices: the MONEX Index and the MNSE10 Index (used since 1 April 2015), which are the successors of all indices previously used at the Montenegrin stock exchanges.

PUBLIC FINANCE

Overview

In the previous period, 2017-2019, Montenegro's economic policy was aimed at consolidating public finances and preserving the stability of the financial sector in order to allow for a positive economic development trend in Montenegro, as stated below:

- achieved dynamic rates of economic growth (4.7 per cent. in 2017, 5.1 per cent. in 2018 and 4.1 per cent. in 2019) with 50 per cent. of the EU average reached, measured by purchasing power parity;
- increased average number of employees and wages;
- the budget deficit was reduced from 5.8 per cent. of GDP in 2017 to 2.9 per cent. of GDP in 2019, with a surplus of current spending each year during the 2017-2019 period;
- public revenues increased by over €350 million, or 20.0 per cent. during the 2017-2019 period.

As in other countries, Montenegro was faced with the challenges presented by the spread of the COVID-19 pandemic in March 2020, and measures aimed at protecting the health of the population limited economic results and consequently led to a decrease in key macroeconomic and fiscal metrics.

Implementation of measures aimed at protecting the health of the population, as well as the interruption of international passenger traffic, consequently caused a decline in the planned collection of budget revenues. Additionally, the need for additional financing to support Montenegro's healthcare system as well as the implementation of various measures to support the economy and mitigate the negative effects of the COVID-19 pandemic required the redistribution of budget expenditures. In line with the new economic circumstances, the Law on Amendments to the Law on Budget for 2020 was adopted in June 2020.

Pursuant to the Law on Amendments to the Law on Budget, budget revenues in 2020 are expected to amount to €1,705 million or 37.0 per cent. of the estimated GDP (€4,607.3 million), a decrease of €349.4 million, or 17 per cent. as compared to the original plan.

The most significant deviations from the plan relate to the following categories of revenue:

- income tax and contributions decreased by €93.6 million compared to the original plan, due primarily to measures implemented to support economic entities in order to preserve liquidity, which allowed for the postponing of settlements on liabilities based on taxes and contributions to salaries, as well as deferrals of obligations based on the concluded contract on tax debt rescheduling. The projected decrease in these income categories was also due to an expected decease in employment and wages in line with the macroeconomic framework;
- VAT decreased by €93.7 million due to decreases in household consumption in accordance with macroeconomic scenarios, decreases in fuel prices, the acceleration of refunds, postponements of VAT on imports and the rescheduling of tax claims in accordance with the measures adopted by Government;
- excises decreased by €23.3 million due to projected decreases in economic activity;
- budget expenditures in 2020 are expected to amount to €2,040.9 million or 44.3 per cent. of estimated GDP, a decrease of €63.4 million, or 3.0 per cent. compared to the original plan, primarily due to the redistribution of certain budget expenditures between the categories as well as savings realised from non-mandatory spending; and

- according to the revised levels of revenue expenditures, the expected level of the central budget deficit is €335.9 million, or 7.29 per cent. of estimated GDP, an increase of €285.9 million compared to the original plan.

Based on the revised macroeconomic projections, which predict a decline in real GDP by 14.2 per cent. in 2020, the revenue estimation has also been revised. Additionally, there has been a revision to the estimation of expenditures and according to a new estimate, the budget deficit in 2020 will amount to approximately 10.6 per cent. of GDP.

To mitigate the negative impacts of the COVID-19 pandemic to the economy, the Government has adopted three packages of measures (with additional measures adopted by the Central Bank) as described in *"Economic developments and trends—Fiscal and Economic Response to COVID-19"*.

The focus of economic policy in the upcoming period will be on economic recovery (i.e. the return of the positive trend that characterised the economy before the outbreak of the pandemic and the creation of conditions for long-term growth and development). Achieving this goal will require conditions which provide greater diversification of the economy and the continued, as well as new, investment in strategically important branches of the economy to increase its overall competitiveness.

To support projected economic growth and ensure sustainability of public finances in the medium-term, consolidation of public finances will continue. According to the established medium-term framework, the main goals of the strategy for public finances in the period 2021-2023 are as follows:

- continued reduction of the public finance deficit (i.e. achieving fiscal balance); and
- the gradual reduction of public debt, starting in 2021, to 76.7 per cent. of GDP. by 2023.

To support the strengthening of macroeconomic stability and economic competitiveness, a structural reform agenda, including development and economic policy measures in the public and real sectors, are expected to be implemented. In addition to these measures, the ERP sets out certain priority measures within the framework of structural reforms that are intended to create a positive macro-fiscal effect, improve the competitiveness of the country in the medium term, reduce barriers to economic growth and create job opportunities for Montenegrins. In particular, the Government is focused on reform measures to improve the energy and transport markets, the industrial sector, research, development and innovation and the digital economy, as well as initiatives designed to reduce the grey economy and informal employment while increasing labour market flexibility. The implementation of the reform measures from the ERP is managed by the Competitiveness Council, which the Government established in 2017 in accordance with the recommendations of the European Commission. To achieve the ERP's measures, the Competitiveness Council works to improve, among other things, Montenegro's administrative processes.

Montenegro was ranked 50 out of 190 countries in the 2020 World Bank's Doing Business Survey, which is the same ranking Montenegro received in the 2019 World Bank's Doing Business Survey. As a result, the Government has developed an action plan to improve in five of the indicators measured by the 2019 World Bank's Doing Business Report ("starting a business", "dealing with construction permits", "getting electricity", "registering property" and "paying taxes").

Montenegro has improved its position relative to the Fraser Institute report where Montenegro has been ranked 80 out of 162 in 2020 and the Heritage Foundation where it has been ranked 91st in 2020. According to the World Economic Forum's Global Competitiveness Index 2019, which assesses the economic competitiveness of 141 countries, Montenegro ranked 73rd, two places lower, as compared to the 2018 report. However, although there was a decline in the competitiveness rank, the number of points assigned to Montenegro increased from 59.6 (GCI 2018) to 60.8 (GCI 2019).

Montenegro is also covered by the Corruption Perceptions Index 2019, published by Transparency International, and is ranked 66 out of 180 countries, indicating that Montenegro's efforts to combat corruption have been recognised.

According to estimates from the Heritage Foundation in 2020, Montenegro increased the number of points compared to previous years with 61.5 points found in the zone of moderately free countries. On a global scale ranking list, Montenegro is ranked 91st out of 180 countries, which represents a slight increase in the ranking of one place compared to the previous year. The improved condition is accompanied by significant growth within indicators of "government integrity", with modest positive developments within the indicators for "property rights", "judicial effectiveness", "tax burden", "fiscal health" and "labour freedom". The overall score is similar to the world average (61.6). The Montenegrin economy, given the Heritage Foundation's index of economic freedom, has been moderately free for more than a decade. GDP growth was good by European standards, and was driven by household consumption, infrastructure investment and significant tourism revenues.

A new methodology for measuring transitional progress towards a sustainable market economy prepared by the EBRD rates the Montenegrin economy with a medium transition gap and a score of 5.4, on a scale of one to 10.

Montenegro's key fiscal policy objective in the medium term is to sustain the stability of public finances through the implementation of the adopted fiscal consolidation measures. This will allow Montenegro to ensure the execution of the key objectives specified in the Fiscal Strategy 2017-2020, including a decrease in the deficit of public expenditures, leading to a surplus in 2020, and a gradual decrease in the level of public debt.

Budget Process and Municipal Governments

The budget law of Montenegro (the "**Budget Law**") regulates, among other things, adoption of the budget, budget management, preparation and planning of the budget, execution of the central and municipal budgets and execution of loans and guarantees. The Budget Law for each fiscal year starting on 1 January and ending on 31 December is adopted by the Parliament. Each municipal budget is adopted by the relevant municipal council or assembly. Planning of the central budget is based on the economic growth projections, macroeconomic stability, economic policies, laws and other regulations. In 2014, the Parliament passed the Law on Budget and Fiscal Responsibility, which introduced a medium-term budgetary framework and fiscal rules for adopting budgets. To strengthen public finance management, in 2017, three-year budgeting was introduced through amendments to the Law on Budget and Fiscal Responsibility. As expenditures of spending units will be presented for a period of three years (as opposed to an aggregate medium-term amount), this amendment is expected to result in increased predictability and transparency of budget spending in the medium term. During 2018, the law amending the Law on Budget and Fiscal Responsibility was adopted for the purpose of the gradual harmonisation with European Union Directive No. 2011/85/EU on requirements for budgetary frameworks of the member states. According to this amendment, securities purchase transactions that have elements of financing will be excluded from the calculation of the fiscal balance of the state. In 2018, the decision on capital budget development was adopted, which set the criteria for proposing and selecting capital projects, created the prerequisites for improving the planning and management of investment projects, and established priority projects and the framework for the reporting of their implementation.

Based on the Government's Medium-Term Macroeconomic Guidelines, the Ministry of Finance issues instructions for preparation of the budgets of the various government departments and budgets of municipal governments for the forthcoming fiscal year. If, during the process of negotiating the draft budget law, any disagreement arises between the Ministry of Finance and the various government departments, the Ministry of Finance prepares the final draft for consideration by the Government. The relevant competent body of each municipality prepares the draft of the municipal budget and submits it for consideration and comment by the Ministry of Finance prior to sending it to the local municipal assembly.

The draft Budget Law is required to be submitted to the Parliament and the draft municipal budget is required to be submitted to the local municipal assembly, in each case by the end of November in each year. At the same time as it receives the draft Budget Law, the Parliament is presented with the proposed financial plans and activities of the certain independent regulatory bodies, including, among others, the Central Bank, telecommunications agencies, air traffic agencies and pharmaceutical agencies.

The rights and obligations of the municipalities are set out in the Municipal Government Laws. The Law on Municipal Government Finance regulates the rights and obligations of the municipal governments regarding financing. This law defines sources of financing of the units of municipal self-government and sets out the structure of the distribution of common revenues between the central budget and the municipal Governments. In addition, this law determines the conditions for use of the Equalisation Fund, which is an instrument for redistribution of income and expenses among the national and local governments, as well as the conditional subsidies from the budget. According to the law, municipalities are prohibited from borrowing to the extent their overall debt service would exceed 10 per cent. of their current revenues in the previous fiscal year and they are obliged to obtain central Government approval for each new borrowing even if within this limit.

Budget Execution

In 2016, the general Government budget deficit was €112.1 million, or 2.8 per cent. of GDP, which was a decrease of 57.7 per cent. as compared to 2015. In 2017, the general Government deficit was €243.0 million or 5.7 per cent. of GDP which was an increase of 115.1 per cent. from 2016. In 2018, the general Government deficit was €213.3 million or 4.6 per cent. of GDP which was a decrease of 12.2 per cent. from 2017. In 2019, the general Government budget deficit was €83.9 million, or 1.7 per cent. of GDP, which was a 60.7 per cent. decrease from 2018. The final figure will be ratified and released by the Government in accordance with domestic laws in 2020. See "*—2016 Budget Execution*" "*2017 Budget Execution*", "*2018 Budget Execution*" and "*2019 Budget Execution*" below for additional information.

The following table sets out a summary of the actual (and in the case of 2019, preliminary) general budget revenues and expenditures (which consist of the revenues and expenditures of the central Government budget and the municipal budgets) for the years 2017, 2018 and 2019 and the expected general budget revenues and expenditures for 2020, and those provided for in the Budget Laws for 2017, 2018, 2019 and 2020.

	2017 Budget Law		**2017 Budget Execution**		**2018 Budget Law**		**2018 Budget Execution**		**2019 Budget Law**		**2019 Budget Execution**		**2020 Budget Law**	**2020 Budget Execution (Expected)**		
	(mil. €)	*(% of GDP)*	*(mil. €)*	*(% of GDP)*	*(mil. €)*	*(% of GDP)*	*(mil. €)*	*(% of GDP)*	*(mil. €)*	*(% of GDP)*	*(mil. €)*	*(% of GDP)*	*(mil. €)*	*(% of GDP)*	*(mil. €)*	*(% of GDP)*
Revenues	**1,787.8**	**42.6**	**1,785.4**	**41.5**	**1,988.2**	**44.9**	**1,969.5**	**42.2**	**2,074.2**	**43.2**	**2,151.0**	**43.4**	**1,938.7**	**42.1**	**1,851.6**	**43.3**
Tax revenues	1,615.3	38.4	1,599.3	37.2	1,739.3	39.3	1,744.3	37.4	1,821.9	37.9	**1,891.4**	**38.2**	**1,703.0**	**37.0**	**1,638.7**	**38.3**
Non-tax revenues	172.5	4.1	186.1	4.3	249.1	5.6	225.2	4.8	252.2	5.3	**259.6**	**5.2**	**235.7**	**5.1**	**212.9**	**5.0**
Expenditures	1,919.8	45.7	2,012.5	46.8	2,086.3	47.1	2,152.4	46.2	2,175.9	45.3	**2,248.2**	**45.4**	**2,229.7**	**48.4**	**2,305.1**	**53.9**
Non-capital expenditures	1,619.6	38.5	1,714.5	39.9	1,745.1	39.4	1,834.4	39.3	1,826.0	38.0	**1,909.4**	**38.6**	**2,014.0**	**43.7**	**2,068.3**	**48.3**
Capital expenditures	300.2	7.1	298.0	6.9	341.1	7.7	318.0	6.8	349.9	7.3	**338.8**	**6.8**	**215.7**	**4.7**	**236.8**	**5.5**
Financial balance	**(132.0)**	**(3.1)**	**(243.0)**	**(5.7)**	**(98.1)**	**(2.2)**	**(213.3)**	**(4.6)**	**(101.8)**	**(2.1)**	**(83.9)**	**(1.7)**	**(291.0)**	**(6.3)**	**(453.5)**	**(10.6)**

Source: Ministry of Finance

The following table sets out a summary of the actual (and in the case of 2019, preliminary) central Government budget revenues and expenditures for the years 2017, 2018 and 2019 and the expected central Government budget revenues and expenditures for 2020, and those provided for in the Budget Laws for, 2017, 2018, 2019 and 2020.

	2017 Budget Law		2017 Budget Execution		2018 Budget Law		2018 Budget Execution		2019Budget Law		2019 Budget Execution		2020Budget Law		2020 Budget Execution (Expected)	
	(mil. €)	*(% of GDP)*	*(mil. €)*	*(% of GDP)*	*(mil. €)*	*(% of GDP)*	*(mil. €)*	*(% of GDP)*	*(mil. €)*	*(% of GDP)*	*(mil. €)*	*(% of GDP)*	*(mil. €)*	*(% of GDP)*	*(mil. €)*	*(% of GDP)*
Revenues	**1,580.0**	**37.6**	**1,566.3**	**36.4**	**1,757.0**	**38.2**	**1,746.0**	**37.4**	**1,834.0**	**38.1**	**1,885.2**	**38.1**	**1,705.0**	**37.0**	**1,616.5**	**37.8**
Tax revenues .	1,479.6	35.2	1,466.1	34.1	1,600.7	34.8	1,593.4	34.2	1,656.9	34.4	**1,719.0**	**34.7**	**1,547.9**	**33.6**	**1,482.2**	**34.6**
Direct taxes....	668.5	15.9	657.7	15.3	707.1	15.4	719.3	15.4	727.5	15.1	**746.1**	**15.1**	**674.7**	**14.6**	**725.2**	**16.9**
Personal income tax.....	117.7	2.8	112.0	2.6	121.4	2.6	124.9	2.7	120.2	2.5	**125.0**	**2.5**	**112.7**	**2.4**	**118.9**	**2.8**
Corporate income tax.....	48.7	1.2	49.2	1.1	61.7	1.3	68.2	1.5	71.2	1.5	**72.8**	**1.5**	**67.6**	**1.5**	**77.2**	**1.8**
Tax on property.........	1.5	—	1.5	—	1.9	--	1.8	—	1.9	—	**2.0**	**-**	**1.9**	**-**	**1.7**	**-**
Social security contributions..	500.5	11.9	495.0	11.5	522.3	11.3	524.4	11.2	534.2	11.1	**546.3**	**11.0**	**492.5**	**10.7**	**527.4**	**12.3**
Indirect taxes .	811.1	19.3	808.4	18.8	893.5	19.4	874.0	18.7	929.4	19.3	**972.9**	**19.7**	**873.3**	**18.9**	**757.1**	**17.7**
Value added taxes.............	550.5	13.1	548.7	12.78	624.4	13.6	616.9	13.2	657.9	13.7	**695.7**	**14.1**	**615.8**	**13.4**	**522.8**	**12.2**
Excise taxes...	225.6	5.4	225.1	5.2	232.7	5.1	221.2	4.7	234.8	4.9	**235.5**	**4.8**	**221.4**	**4.8**	**201.5**	**4.7**
Customs duties............	25.8	0.6	25.4	0.60	26.9	0.6	26.6	0.6	27.2	0.6	**28.5**	**0.6**	**26.8**	**0.6**	**22.6**	**0.5**
Other taxes	9.2	0.2	9.2	0.20	9.6	0.2	9.3	0.2	9.5	0.2	**13.1**	**0.3**	**9.3**	**0.2**	**10.1**	**0.2**
Non taxes revenues	100.5	2.4	100.2	2.3	156.4	3.4	152.6	3.3	177.2	3.7	**166.2**	**3.4**	**157.1**	**3.4**	**134.2**	**3.1**
Expenditures	1,752.0	41.7	1,803.1	41.9	1,899.8	41.3	1,914,9	41,1	1,976.6	41.0	**2,028.5**	**41.0**	**2,040**.9	**44.3**	**2,074.2**	**48.5**
Non-capital expenditures ..	1,493.4	35.5	1,551.3	36.1	1,610.8	35.0	1,650.2	35.4	1,680.7	34.9	**1,756.1**	**35.5**	**1,875.2**	**40.7**	**1,889.4**	**44.2**
Capital expenditures ..	258.6	6.2	251.9	5.9	289.1	6.3	264.7	5.7	295.9	6.1	**272.4**	**5.5**	**165.7**	**3.6**	**184.8**	**4.3**
Financial balance	(172.0))	(4.1)	(250.9)	(5.8)	(142.8)	(3.1)	(197.0)	(4.2)	(142.6)	(3.0)	**(144.5)**	**(2.9)**	**(335.9)**	**(7.3)**	**(457.8)**	**(10.7)**

Source: Ministry of Finance

The following table sets out a summary of the actual municipal Government budget revenues and expenditures for the years, 2017, 2018, preliminary for 2019 and expected for 2020, and those provided for in the Budget Laws for, 2017, 2018 2019 and 2020.

	2017 Approved Municipal Budget		2017 Budget Execution		2018 Approved Municipal Budget		2018 Budget Execution		2019 Approved Municipal Budget		2019 Budget Execution		2020 Approved Municipal Budget		2020 Budget Execution (Expected)	
	(mil. €)	*(% of GDP)*	*(mil. €)*	*(% of GDP)*	*(mil. €)*	*(% of GDP)*	*(mil. €)*	*(% of GDP)*	*(mil. €)*	*(% of GDP)*	*(mil. €)*	*(% of GDP)*	*(mil. €)*	*(% of GDP)*	*(mil. €)*	*(% of GDP)*
Revenues	**207.8**	**5.0**	**219.1**	**5.1**	**231.2**	**5.0**	**223.4**	**4.8**	**240,1**	**5.0**	**265.7**	**5.4**	**233.7**	**5.1**	**235.1**	**5.5**
Tax revenues .	135.8	3.2	133.2	3.1	138.6	3.0	150.8	3.3	165.0	3.4	172.3	3.5	**155.0**	**3.4**	**156.4**	**3.7**
Direct taxes....	50.6	1.2	47.3	1.1	50.9	1.1	54.8	1.2	67.1	1.4	77.6	1.6	**67.7**	**1.5**	**69.1**	**1.6**
Personal income tax.....	38.5	0.9	33.6	0.8	34.2	0.7	38.3	0.8	50.3	1.1	55.1	1.1	**50.6**	**1.1**	**53.8**	**1.3**
Tax on property sales.	12.1	0.3	13.7	0.3	16.7	0.4	16.5	0.4	16.8	0.4	22.5	0.5	**17.1**	**0.4**	**15.3**	**0.4**
Local taxes	85.2	2.0	85.9	2.0	87.6	1.9	96.0	2.1	98.0	2.0	94.7	1.9	**87.3**	**1.9**	**87.3**	**2.0**
Non-tax revenues	58.8	1.4	72.6	1.7	79.0	1.7	58.0	1.3	60.2	1.3	75.5	1.5	**66.1**	**1.4**	**66.1**	**1.5**
Other revenues	13.2	0.3	13.4	0.3	13.7	0.3	14.6	0.3	14.9	0.3	17.9	0.4	**12.5**	**0.3**	**12.5**	**0.3**
Expenditures	167.8	3.4	209.3	4.9	186.4	4.0	237.5	5.1	199.3	4.2	219.7	4.4	**188.8**	**4.1**	**230.8**	**5.4**
Non-capital expenditures ..	126.1	3.0	163.2	3.8	134.4	2.9	184.1	4.0	145.3	3.0	153.3	3.1	**138.8**	**3.0**	**178.8**	**4.2**
Capital expenditures ..	41.7	1.0	46.1	1.1	52.1	1.1	53.3	1.1	54.0	1.1	66.4	1.3	**50.0**	**1.1**	**52.0**	**1.2**
Transfers from Central budget	3.0	0.1	3.6	0.1	4.0	0.1	8.6	0.2	9.0	0.2	10.1	0.2	**9.0**	**0.2**	**9.0**	**0.2**
Financial balance	40.0	0.1	9.8	0.2	44.8	1.0	16.3	0.3	40.8	0.9	60.6)	1.2)	**44.9**	**1.0**	**4.2**	**0.1**

Source: Ministry of Finance

2017 Budget Execution

The fiscal adjustment measures that were implemented in 2017, in accordance with the Budget Deficit and Public Debt Recovery Plan, as well as the additional measures contained in the Fiscal Strategy 2017-2020, were undertaken to rationalise public expenditure and create conditions to facilitate an increase in public revenues and a reduction in the public expenditure deficit, as well as a gradual reduction in public debt.

Central Government revenues in 2017 were initially expected to be €1,580.0 million, or 37.6 per cent. of expected GDP. Actual central Government revenues in 2017 were €1,566.3 million, or 36.4 per cent. of GDP. Central Government revenues were 0.9 per cent. higher than anticipated by the 2017 Budget, representing a 5.3 per cent. increase as compared to 2016. The increase in revenue was primarily due to the implementation of the fiscal consolidation measures as well as overall growth in economic activity. General Government budget revenues in 2017 were €1,785.4 million, or 41.5 per cent. of GDP, which was 6.0 per cent. higher than the 2016 general Government revenues.

Central Government expenditures in 2017 were initially expected to be €1,752.0 million, or 41.7 per cent. of expected GDP. Actual central Government expenditures in 2017 were €1,803.1 million, or 41.9 per cent. of GDP. Central Government expenditures were 2.9 per cent. higher than anticipated by the 2017 Budget and they represented a 11.2 per cent. increase as compared to 2016, mainly due to an increase of capital spending. General Government expenditures in 2017 were €2.012.5 million, or 46.8 per cent. of GDP, which was 10.2 per cent. higher than 2016 general Government expenditures.

In 2017, the central Government budget deficit was €250.9 million, or 5.8 per cent. of GDP, and the general Government budget deficit in 2017 was €243.0 million or 5.7 per cent. of GDP.

In 2017, for the first time in 10 years, Montenegro's current account had a budget surplus, which reached €15.0 million. As a result, Montenegro was able to achieve one of the fiscal rules according to the Law on Budget and Fiscal Responsibility as expenditures were covered by revenues.

2018 Budget Execution

The fiscal policy for 2018 focused on the implementation of the fiscal consolidation measures previously outlined in the 2017-2021 Budget Deficit and Public Debt Recovery Plan and the 2017-2020 Fiscal Strategy in order to reverse the public finance trend and prevent fiscal risks.

Central Government revenues in 2018 were initially expected to be €1,757.0 million, or 38.2 per cent. of expected GDP. Actual central Government revenues in 2018 were €1,746.0 million, or 37.4 per cent. of GDP. Central Government revenues were 0.6 per cent. lower than anticipated by the 2018 budget, representing a 11.5 per cent. increase as compared to 2017. The increase in revenue was primarily due to the implementation of the fiscal consolidation measures and positive trends in the macroeconomic environment. General Government budget revenues in 2018 were €1,969.5 million, or 42.2 per cent. of GDP, which was 10.3 per cent. higher than the 2017 general Government revenues.

Central Government expenditures in 2018 were expected to be €1,899.8 million, or 41.3 per cent. of expected GDP. Actual central Government expenditures in 2018 were €1,914.9 million, or 41.1 per cent. of GDP. Central Government expenditures were 0.8 per cent. higher than anticipated by the 2018 budget and they represented a 6.2 per cent. increase as compared to 2017, due to an increase in capital spending. General Government expenditures in 2018 were €2,152.4 million, or 46.2 per cent. of GDP, which was a 7.0 per cent. increase from the 2017 general Government expenditures.

In 2018, central Government budget deficit was €197.0 million, or 4.2 per cent. of GDP, and general Government budget deficit in 2018 was €213.3 million, or 4.6 per cent. of GDP.

In 2018, Montenegro's current account had a budget surplus of €95.8 million and achieved one of the fiscal rules of the Law on Budget and Fiscal Responsibility.

2019 Budget Execution

The fiscal policy for 2019 focused on the implementation of the fiscal consolidation measures previously outlined in the 2017-2021 Budget Deficit and Public Debt Recovery Plan and the 2017-2020 Fiscal Strategy in order to reverse the public finance trend and prevent fiscal risks.

Central Government revenues in 2019 were initially expected to be €1,834.0 million, or 38.1 per cent. of expected GDP. Actual central Government revenues in 2019 were €1,885.2 million, or 38.1 per cent. of GDP. Central Government revenues were 2.8 per cent. higher than anticipated by the 2019 Supplemental budget, representing an 8.0 per cent. increase as compared to 2018. The increase in revenue was primarily due to positive macroeconomic trends, collection of tax receivables in accordance with the Law on Tax debt rescheduling programme, implementation of the redefined excise policy, as well as intensified inspection supervision. General Government budget revenues in 2019 were €2,151.0 million, or 43.4 per cent. of GDP, which was 9.2 per cent. higher than the 2018 general Government revenues.

Central Government expenditures in 2019 were expected to be €1,976.6 million, or 41.0 per cent. of expected GDP. Actual central Government expenditures in 2019 were €2,028.5 million, or 41.0 per cent. of GDP. Central Government expenditures were 2.6 per cent. higher than anticipated by the 2019 Supplemental budget and they represented a 5.9 per cent. increase as compared to 2018, due to the activation state guarantee related to the wastewater treatment system in the municipality of Budva and higher allocations for the equipment needs of the Army of Montenegro, in the line with the obligations under the Euro-Atlantic integration and the Long-term Defence Development Plan 2019-2028, as well as defence allocations reaching 2.0 per cent. of GDP by 2024. General Government expenditures in 2019 were €2,248.2 million, or 45.4 per cent. of GDP, which was a 4.5 per cent. increase from the 2018 general Government expenditures.

In 2019, the preliminary central Government budget deficit was €144.5 million, or 2.9 per cent. of GDP, and the preliminary general Government budget deficit in 2019 was €83.9 million, or 1.7 per cent. of GDP. The final figure will be ratified and released by the Government in accordance with laws in 2020.

In 2019, Montenegro's current account had a budget surplus of €129.1 million and achieved one of the fiscal rules of the Law on Budget and Fiscal Responsibility.

Original 2020 Budget Law

The Budget Law for 2020 was first adopted in December 2019 and amended in June 2020 with the Supplemental Budget Law for 2020 (the "**2020 Budget Law**"). According to the 2020 Budget Law, the Central Government budget deficit in 2020 was expected to be €335.9 million, or 7.3 per cent. of expected GDP. The Central Government budget capital expenditure for construction costs of the Bar-Boljare Motorway and other central Government budget capital expenditures were expected to amount to approximately €165.7 million of the central Government expenditures. The general Government budget deficit in 2020 was expected to be €291.0 million, or 6.3 per cent. of expected GDP. In 2019, the Government repurchased two tranches of EPCG's shares from A2A and received a dividend in the amount of approximately €40.0 million. The state ownership level in EPCG as at the end of 2019 was 98.6 per cent. and has not changed in 2020.

Central Government budget revenues were expected to be €1,705.0 million, or 37.0 per cent. of expected GDP, which would represent a 9.6 per cent. decrease as compared to the preliminary 2019 central Government revenues. The general Government budget revenues in 2020 were expected to be €1,938.7 million, or 42.1 per cent. of expected GDP, which is 9.9 per cent. lower than the preliminary 2019 general Government revenues. The projections for Government revenues were made based on the projected decline in economic activity due to the COVID-19 pandemic, adopted measures of the Government aimed at supporting the economy in order to mitigate the negative effects of COVID-19, as well as any spill-over effects of one-off revenues planned in 2020 for 2021.

Central Government expenditures in 2020 were expected to be €2,040.9 million, or 44.3 per cent. of expected GDP, which would represent a 0.6 per cent. increase as compared to the preliminary 2019 central Government expenditures. The central Government capital expenditures in 2020 were expected to be €165.7 million or 3.6 per cent. of expected GDP and the central Government non-capital expenditures were expected to be €1,875.2 million, or 40.7 per cent. of expected GDP. The general Government expenditures were expected to be €2,229.7 million, or 48.4 per cent. of expected GDP, which is 0.8 per cent. lower than the preliminary 2019 general Government expenditures. The general Government capital expenditures in 2020 were expected to be €215.7 million, or 4.7 per cent. of expected GDP, and the general Government non-capital expenditures were expected to be €2,014.0 million, or 43.7 per cent. of expected GDP.

2020 Budget Execution through 30 September 2020

Central Government budget revenues in the nine months ended 30 September 2020 amounted to €1,165.9 million, or 27.2 per cent. of GDP based on preliminary data, a decrease of €172.2 million, or 12.9 per cent., compared to the nine months ended 30 September 2019, due to decreases in value added tax revenue of €129.0 million, contributions of €10.7 million, personal income tax of €2.8 million and excise tax of €26.0 million. The negative trend of these categories of income is the result of economic conditions determined by the COVID-19 pandemic and the implementation of measures in order to mitigate its negative effects. Compared to the plan for the nine months ended 30 September 2020, the central Government budget revenues are lower by €61.8 million, or 5.0 per cent. General Government revenues for the nine months ended 30 September 2020 amounted to €1,319.7 million, or 30.8 per cent. of the GDP based on preliminary data. Compared to the nine months ended 30 September 2019, revenue collection decreased by €204.0 million, or 13.4 per cent.

Central Government budget expenditures for the nine months ended 30 September 2020 amounted to €1,499.5 million, or 35.0 per cent. of GDP based on preliminary data, and increased by €123.2 million, or 8.9 per cent., compared to the nine months ended 30 September 2019. Central Government expenditures increased due to greater allocation for the needs of financing measures aimed at combating the negative effects of the COVID-19 pandemic and supporting the economy through the implementation of three packages of socio-economic measures. Compared to the plan, the budget expenditures were higher by €18.5 million, or 1.3 per cent. Current budget expenditures were €611.9 million and decreased by €8.1 million, or 1.3 per cent., compared to the plan. The 2020 capital expenditure decreased by €33.9 million for the nine months ended 30 September 2020 compared to the nine months ended 30 September 2019 and was higher than planned by €3.9 million. General Government budget expenditures during the nine months ended 30 September 2020 amounted to €1,632.4 million, or 38.1 per cent. of GDP based on preliminary data, and increased by €129.1 million, or 8.6 per cent. as compared to the nine months ended 30 September 2019. Compared to the plan, the general Government expenditures increased by €9.3 million, or 0.6 per cent.

The central Government budget deficit for the nine months ended 30 September 2020 amounted to €333.6 million, or 7.8 per cent. of GDP based on preliminary data, and increased by €295.4 million in relation to the deficit realised for the nine months ended 30 September 2019. The central Government budget deficit increased by €80.4 million, or 31.8 per cent. based on preliminary data, compared to the plan. The general Government budget deficit in the nine months ended 30 September 2020 amounted to €312.8 million, or 7.3 per cent. of GDP based on preliminary data, and was higher by €333.1 million from the deficit recorded in the nine months ended 30 September 2019. The general Government budget deficit for the nine months ended 30 September 2020 was higher by €96.5 million, or 44.6 per cent. based on preliminary data, compared to the plan.

2020 Expected Budget Performance

Based on the revised macroeconomic projections, which predict a decline in real GDP by 14.2 per cent. in 2020, the revenue estimation has also been revised. Additionally, there was a revision in the estimation of expenditures and according to a more recent estimate the budget deficit in 2020 will amount to approximately 10.6 per cent. of GDP.

The following tables set out a summary of the forecast general and central Government budget (revenues and expenditures) for 2020. The information is based on a number of economic, fiscal and other assumptions.

	Forecast 2020	
	(€ million)	*(% GDP)*
General Government budget revenues	**1,851.6**	**43.3**
Tax revenues	1,638.7	38.3
Non-tax revenues	212.9	5.0
General Government budget expenditures	**2,305.1**	**53.9**
Non-capital expenditure	2,068.3	48.3
Capital expenditure	236.8	5.5
Financial balance	**(453.5)**	**(10.6)**

Source: Ministry of Finance

	Forecast 2020	
	(€ million)	*(% GDP)*
Central Government budget revenues	**1,616.5**	**37.8**

	Forecast 2020	
	(€ million)	*(% GDP)*
Personal income tax	118.9	2.8
Value added tax	522.8	12.2
Excise tax	201.5	4.7
Contributions	527.4	12.3
Other revenue	35.4	0.8
Central Government budget expenditures	**2,074.2**	**48.5**
Gross salaries and contributions charged to employers	498.7	11.7
Pension and disability insurance rights	434.2	10.1
Expenditures for supplies and services	101.0	2.4
Interests	107.3	2.5
Capital outflows of current budget	47.0	1.1
Capital budget	184.8	4.3
Other expenditure	41.5	1.0
Financial balance	**(457.5)**	**(10.7**)

Source: Ministry of Finance

Draft Budget for 2021

Based on the 2021 draft budget, the Government expects that GDP will grow by 8.0 per cent. in 2021. The 2021 is expected to be adopted in January 2021. The draft budget included herein is subject to change as it goes through the approval process.

Public revenues are expected to be approximately €2,134.0 million in 2021. It is anticipated that value-added tax will range be approximately €635.3 million in 2021, while contributions will increase to approximately €540.4 million. In addition, VAT revenues are budgeted to increase due to the collection of arrears of tax debt according to the rescheduling of tax claims, along with the fight against the informal economy and the implementation of electronic fiscalisation of tax registers from 1 January 2021. Additionally, revenues from personal income tax will likely constitute a significant share of total revenue, while excise taxes will record growth, as a result of a recovery in economic activity and in line with the adjustment of Montenegro's excise policy in line with that of the European Union's excise policy.

Following a deficit in 2020, a deficit of €128.7 million, or 2.7 per cent. of GDP, is budgeted for 2021.

The following tables set out a summary of the draft general, central and municipal Government budgets (revenues and expenditures) for 2021. This is derived from the expected 2021 draft budget, which is expected to be submitted for consideration by the Parliament before the end of 2020, and is based on a number of economic, fiscal and other assumptions.

	Draft Budget 2021	
	(€ million)	*(% GDP)*
General Government budget revenues	**2,134.0**	**45.5**
Tax revenues	1,771.9	378
Non-tax revenues	362.0	7.7

	Draft Budget 2021	
	(€ million)	*(% GDP)*
General Government budget expenditures	**2,262.7**	**48.2**
Non capital expenditure	1,985.3	42.3
Capital expenditure	277.4	5.9
Financial balance	**(128.7)**	**(2.7)**

Source: Ministry of Finance

	Draft Budget 2021	
	(€ million)	*(% GDP)*
Central Government budget revenues	**1,890.5**	**40.3**
Tax revenues	1,610.5	34.3
Direct taxes	722.6	15.4
Personal income tax	123.9	2.6
Corporate income tax	56.4	1.2
Tax on property	1.8	—
Social security contribution	540.4	11.5
Indirect taxes	887.9	18.9
Valued added taxes	635.3	13.5
Excise tax	216.6	4.6
Customs duties	24.8	0.5
Other taxes	11.1	0.2
Non tax revenue	280.0	6.0
Central Government budget expenditures	**2,026.1**	**43.2**
Non capital expenditure	1,803.6	38.4
Capital expenditure	222.4	4.7
Financial balance	**(135.6)**	**(2.9)**

Source: Ministry of Finance

	Draft Budget 2021	
	(€ million)	*(% GDP)*
Municipal Government budget revenues	**243.5**	**5.2**
Tax revenues	161.5	3.4
Direct taxes	72.2	1.5
Personal income tax	55.4	1.2
Tax on property sales	16.8	0.4
Local taxes	89.3	1.9
Non tax revenue	68.9	1.5

	Draft Budget 2021	
	(€ million)	*(% GDP)*
Other revenues	13.0	0.3
Municipal Government budget expenditures	**236.6**	**5.0**
Non-capital expenditure	181.6	3.9
Capital expenditure	55.0	1.2
Transfers from Central Budget	9.0	0.2
Financial balance	**6.9**	**0.2**

Source: Ministry of Finance

INDEBTEDNESS

Overview

Under the Law on Budget and Fiscal Responsibility, the Government is obligated to report on both public and state debt. Public debt, also known as general government debt, is defined as the debt at both the central government and local government levels. State debt or central government debt is defined as the debt at the central government level and is also known as central government debt. The Government is required to issue the report on public debt within 90 days of the end of the fiscal year and the report on central government debt is typically issued 30 days after the end of a quarter.

Central Government Debt

The following table sets out Montenegro's outstanding central government debt (excluding guarantees) as at 31 December 2016, 2017, 2018 and 2019 and as at 30 September 2020.

	As at 31 December				As at 30 September
	2016	**2017**	**2018**	**2019**	**2020**
	(€ million, unless otherwise indicated)				
Total central Government debt	**2,403.0**	**2,627.9**	**3,153.0**	**3,708.7**	**3,660.3**
External	2,002.8	2,214.0	2,760.0	3,128.7	3,089.8
Domestic	400.2	413.9	392.9	579.9	570.5
Total central Government debt (% of GDP)	**60.8**	**61.1**	**67.6**	**74.9**	79.5(1)
External (% of GDP)	50.7	51.5	59.8	63.2	67.1(1)
Domestic (% of GDP)	10.1	9.6	8.5	11.7	12.4(1)
GDP	**3,954.2**	**4,299.1**	**4,663.1**	**4,950.7**	**4,607.3**

Source: Ministry of Finance

Note:

(1) Percentage calculated based on the expected GDP for the full year 2020.

As at 31 December 2017, total central Government debt amounted to €2,627.9 million, or 61.1 per cent. of GDP, which represented a 9.4 per cent. increase as compared to 31 December 2016, principally as a result of the draw down on the loan from the Chinese EXIM Bank in the amount of U.S.$205.6 million, or approximately €171.4 million, for the purposes of funding construction of the Bar-Boljare Motorway. See "*—Public Debt*" below.

As at 31 December 2018, the central Government debt increased by €525.1 million due to an increase in foreign debt of €546.0 million, and a decrease in domestic debt of €20.9 million. The foreign debt increased primarily due to borrowing from the Chinese EXIM Bank for the construction of the priority section of the Bar-Boljare Motorway, the issuance of Eurobonds in the international market, and the loan facility with the World Bank public policy-based guarantee ("**PBG**"). In the same period, domestic debt decreased due to the regular repayments of obligations to domestic commercial banks and the repayment of bonds issued domestically.

As at 31 December 2019, the central Government debt increased by €555.7 million due to an increase in foreign debt of €368.5 million, and an increase in domestic debt of €186.98 million. The foreign debt increased primarily due to the issuance of €500.0 million of Eurobonds in the international markets and the draw down on the loan from the Chinese EXIM Bank for the purposes of funding construction of the Bar-Boljare Motorway. In the same period, domestic debt increased due to the issuance of €142.4 million of domestic bonds.

As at 31 December 2017, the Government had €70.9 million of reserves, including gold, which represented an increase of 49.7 per cent. as compared to 31 December 2016. As a result, net central Government debt in 2017 represented 59.5 per cent. of GDP. As at 31 December 2018, the Government had reserves of €276.8 million, including gold, which represented an increase of 290.0 per cent., compared to 31 December 2017. As a result, net central Government debt in 2018 represented 62.3 per cent. of GDP.

As at 31 December 2019, the Government had reserves of €597.1 million, including gold, which represented an increase of 115.7 per cent., compared to 31 December 2018. As a result, net central Government debt in 2019 represented 64.5 per cent. of GDP.

As at 31 December 2019, the average maturity of central Government debt (excluding debt in respect of pensions in arrears, debt of legal entities and companies restitution and old currency savings) was 5.9 years, with an average weighted interest rate of 0.2 per cent. per year. As at the same date, approximately 80.4 per cent. of total central Government debt was denominated in euro, while 18.7 per cent. was in U.S. Dollars and 0.9 per cent. in other currencies. Approximately 79.4 per cent. of the total central Government debt had a fixed interest rate.

The following table sets out a breakdown of Montenegro's outstanding external debt (excluding guarantees) as at 31 December 2018 and 2019 and as at 30 September 2020.

	Outstanding external debt as at				
	31 December 2018		**31 December 2019**		**30 September 2020**
	(€ million)	*(% GDP)*	*(€ million)*	*(% GDP)*	*(€ million)*
Creditor					
International Bank for Reconstruction and Development (IBRD)	189.45	4.10	184.88	3.73	183.83
Member states of the Paris Club of Creditors	83.47	1.81	78.04	1.58	70.27
International Development Association (IDA)	38.4	0.83	31.98	0.65	27.31
European Investment Bank (EIB)	115.71	2.50	107.66	2.17	112.81
European Bank for Reconstruction and Development (EBRD)	15.88	0.34	23.27	0.47	32.21
Council of Europe Development Bank (CEB)	23.74	0.51	32.51	0.66	31.43
European Commission	0.60	0.10	0.30	0.01	0.00
Reconstruction Credit Bank (KfW) – Germany	43.45	0.94	38.31	0.77	40.71
Hungarian loan	4.23	0.09	2.97	0.06	1.85
Polish loan	5.54	0.12	4.85	0.10	4.50
French loan – Natixis	3.87	0.08	3.02	0.06	2.55
Czech Exim Bank	5.5	0.12	—	—	—
Steiermarkische Bank und Sparkassen AG	7.70	0.18	3.30	0.07	1.10
Credit Suisse Bank	126.33	2.73	54.22	1.10	42.11
China Exim Bank	516.59	11.18	671.71	13.57	664.14
Instituto del credito oficial (ICO)	2.94	0.06	2.49	0.05	2.26
Erste Bank – Health Insurance Fund	2.55	0.06	1.33	0.03	0.67
Eurobond	1,217.65	26.36	1,548.54	31.28	1,227.45
Banca Intesa Beograd	26.67	0.58	20.0	0.40	13.33
OTP-Erste-Zaba Syndicated loan	64.80	1.40	48.60	0.98	32.40

	Outstanding external debt as at				
	31 December 2018		31 December 2019		30 September 2020
	(€ million)	*(% GDP)*	*(€ million)*	*(% GDP)*	*(€ million)*
International Fund for Agricultural Development (IFAD)	1.15	0.02	1.89	0.04	2.46
Export Development Canada – Helicopters	21.49	0.47	18.85	0.38	17.65
Hapoalim bank	—	—	—	—	6.03
Rapid financing Instrument – MMF	—	—	—	—	72.73
Syndicated Loan PBG1	250.00	5.41	250.00	5.05	250.00
Syndicated Loan PBG2	—	—	—	—	250.00
Total	**2,760.00**	**59.75**	**3,128.72**	**63.19**	**3,089.8**

Source: Ministry of Finance

The following table sets out a breakdown of Montenegro's outstanding domestic state debt (excluding guarantees) as at 31 December 2018 and 2019 and as at 30 September 2020.

	Outstanding domestic debt as at				
	31 December 2018		31 December 2019		30 September 2020
	(€ million)	*(% GDP)*	*(€ million)*	*(% GDP)*	*(€ million)*
Creditor					
Loans from commercial banks	92.65	2.01	140.23	2.83	169.26
Treasury bills	77.00	1.67	72.00	1.45	41.70
Old currency savings	11.9	0.26	10.81	0.22	10.55
Restitution	86.60	1.87	86,53	1.74	83.05
Pension arrears	1.91	0.04	1.90	0.04	1.90
Domestic bonds – GB16	80.41	1.74	80.41	1.62	80.41
Domestic bonds – GB24	—	—	92.44	1.87	92.44
Domestic bonds – GB26	—	—	50.00	1.62	50.00
Legal entities and public enterprises	42.51	0.92	45.80	0.93	41.19
Total	**392.98**	**8.51**	**579.96**	**11.71**	**570.50**

Source: Ministry of Finance

Domestic state debt involves arrears incurred during the former Yugoslavia era, such as frozen assets bonds (issued to compensate holders of saving deposits held in state-owned banks) and restitution bonds, both of which are in the form of non-interest bearing instruments, as well as certain obligations, including, among others, obligations in respect of commercial banks, treasury bills and domestic bonds.

The following table sets out a breakdown of Montenegro's outstanding external and domestic central government debt (excluding guarantees) as at 30 June 2019 and 2020.

	Outstanding Central Government Debt as at			
	30 June 2019		30 June 2020	
	(€ million)	*(% GDP)*	*(€ million)*	*(% GDP)*
External	2.621.73	54.58	3,105.17	67.40
Domestic	511.95	10.66	559.38	12.14
Total	**3.133,68**	**65.24**	**3,664.55**	**79.54**

	Outstanding Central Government Debt as at			
	30 June 2019		30 June 2020	
	(€ million)	*(% GDP)*	*(€ million)*	*(% GDP)*
GDP	**4,803.3**	—	**4,607.3**	—

Source: Ministry of Finance

Public Debt

The following tables set out Montenegro's outstanding public debt (excluding guarantees) as at 31 December for the years ended 2016, 2017, 2018 and 2019, and as at 30 June 2020.

	As at 31 December				As at 30 June
	2016	**2017**	**2018**	**2019**	**2020[1]**
Total general Government debt (€ million)	**2,546.05**	**2,758.83**	**3,268.73**	**3,789.26**	**3,754.72**
External (€ million)	2,002.80	2,213.97	2,760.00	3,128.72	3,105.17
Domestic (€million)	400.20	413.89	392.98	579.96	559.55
Local municipality debt (€ million)	143.09	130.97	115.75	80.59	90.00
Deposits (€million)	47.36	70.90	276.83	597.13	379.62
Net general Government debt (€million)	2,498.69	2,687.93	2,991.90	3,708.67	3,375.10
Total general Government debt (% of GDP)	**64.39**	**64.17**	**70.77**	**76.54**	**81.50**[2]
External (% of GDP)	50.70	51.50	59.75	63.19	67.40[2]
Domestic (% of GDP)	10.10	9.63	8.51	11.71	12,14[2]
Local municipality debt (% of GDP)	3.62	3.05	2.51	1.63	1.95
Deposits (% of GDP)	1.20	1.65	6.00	12.06	8.24
Net general Government debt (% of GDP)	63.19	62.52	64.77	64.47	73.25
GDP (€ million)	**3,954.00**	**4,299.00**	**4,619.10**	**4,951**	**4,607.30**

Source: Ministry of Finance

Notes:

(1) The General Government debt is published up to 31 March of the current year and for the previous year, so data given in table for the first six months of 2020 are preliminary.

(2) Percentage calculated based on the expected GDP for 2020.

The following table set out the projections for Montenegro's outstanding public debt (excluding guarantees) for the period between 2020 and 2023:

	As at 31 December			
	2020	**2021**	**2022**	**2023**
Total general Government debt (€ million)[1]	**3,789.10**	**4,086.60**	**4,034.30**	**4,057.60**
External (€ million) [1]	3,153.80	3,486.80	3,473.90	3,499.60
Domestic (€million)	545.30	509.80	470.40	468.00

	As at 31 December			
	2020	**2021**	**2022**	**2023**
Local municipality debt (€ million)	90.00	90.00	90.00	90.00
Net general Government debt (€million) [(1)]	3,789.10	3,955.60	4,034.30	4,057.60
Total general Government debt (% of GDP)[(2)]	**88.6**	**87.1**	**80.5**	**76.4**
External (% of GDP) [(2)]	73.7	74.3	69.3	65.9
Domestic (% of GDP)[(2)]	12.7	10.9	9.4	8.8
Local municipality debt (% of GDP)[(2)]	2.1	1.9	1.8	1.7
Net general Government debt (% of GDP) [(2)]	88.6	84.3	80.5	76.4
GDP (€ million)	**4,279.00**	**4,692.50**	**5,013.50**	**5,314.20**

Source: Ministry of Finance

Notes:

(1) Projected government debt data for 2020 or any future year does not include the proposed offering of the Notes.

(2) Figures as a percentage of GDP for 2020 and GDP projections for 2020 are based on the latest available indicators as at 30 June 2020. Investors are cautioned that these and other figures are subject to change. In particular, balance of payments data for 30 September 2020 indicates a potentially greater decline in GDP for the full year 2020 than indicated by these projections.

The Ministry of Finance projects general Government debt to amount to €3,789 million at the end of 2020, the same amount as at the end of previous year. Due to COVID 19 epidemic and the subsequent decrease of the GDP, the general Government debt relative to the GDP, will increase to 88.6 per cent. of GDP from 76.5 per cent. to GDP at the end of 2019. The projection for the general Government debt at end of 2020 does not include the proposed offering of the Notes.

The Government is in the process of implementing a €809.6 million road development project, of which the first part is planned to be completed by the end of 2021, which relates to a part of the Bar-Boljare Motorway project. See "*The Economy—Principal Sectors of the Economy—Construction—Bar-Boljare Motorway*" for additional information. During 2019, €150.8 million (3.0 per cent. of GDP) was paid from the capital budget for the highway construction. Without this expenditure, the central budget deficit would have been 0.2 per cent. of GDP. The project will require approximately €50.0 million in 2020 and is expected to require €136.8 million in 2021. Approximately 85 per cent. of the project's required amount will be financed through a 20-year loan (with a six-year grace period during which no principal is payable) from the Chinese EXIM Bank bearing fixed interest at 2.0 per cent. per annum and denominated in U.S. Dollars, and 15 per cent. will be provided by the State of Montenegro through its capital budget. Although the loan from the Chinese EXIM Bank does not include a fixed U.S. Dollar/euro exchange rate, the construction agreement between the CRBC and the Ministry of Transport and Maritime includes a fixed U.S. Dollar/euro exchange rate of U.S.$1.3718 to €1.00. It is expected that in the longer term, approximately half of the project expenditure will be covered from road toll fee revenues. As of 30 June 2020, U.S.$13.12 million (€9.75 million) was drawn under the loan with Chinese EXIM Bank in 2020, while the total amount of drawn loan proceeds was U.S.$764.7 million (€557.4million).

The following table sets out the total state debt service for Montenegro for 2019 and the projected total state debt service for Montenegro from 2020 to 2023. The data in the following table is based on the assumptions that the forecast budget deficit, see "*Public Finance*", will be financed by borrowings and that Montenegro will borrow funds under pre-existing agreements with international financial institutions. See "*Forward-Looking Statements*". The following figures do not reflect any impact that the 15 per cent. of the Bar-Boljare Motorway project cost financed by the Government through its capital budget may have on state debt or the impact of the issuance of the Notes.

	2019	2020	2021	2022	2023
			(€ million)		
External state debt service	**427.6**	**512.7**	**436.8**	**336.5**	**583.4**
Principal	328.9	419.9	350	242.9	204.3
Interest	98.7	92.9	86.8	93.6	87.8
Domestic state debt service	**185.3**	**131,3**	**45.4**	**50**	**42.2**
Principal	178.4	119.7	35.5	39.4	32.4
Interest	6.9	11.6	9.9	10.6	9.8
Total state debt service	**613.0**	**644.0**	**482.2**	**386.5**	**334.3**
Principal	507.4	539.6	385.5	282.3	236.7
Interest	105.6	104.4	96.7	104.2	97.6

Source: Ministry of Finance

The Law on Budget and Fiscal Responsibility mandates that the public debt level should remain within 60 per cent. of GDP and the Government is obligated to adopt a programme for the public debt reduction, as well as to define its policy and create measures for further fiscal consolidation. Such measures include setting a five-year plan to reduce the debt to GDP ratio to below 60 per cent., introducing new projects to increase revenues and introducing new taxes to pay off indebtedness. Due to the continued increase in debt in the period of 2016 through 2020, and the fact that Montenegro's debt to GDP ratio for 2020 is expected to reach 88.6 per cent. of GDP (excluding the Notes offered hereby), the Government is required to adopt a judicious fiscal policy to limit the further acquisition of debt except when such debt would finance capital projects aimed at generating economic growth. Promoting domestic investments and encouraging inflow of foreign investments will be particularly important in order to mitigate high levels of debt and deficit, as well as to ensure economic growth and continued implementation of large projects.

Medium Term Debt Management Strategy for the period from 2018 to 2020

The Government adopted the medium-term debt management strategy for the period from 2018 to 2020 (the "**Strategy**") at the end of March 2018. In accordance with generally accepted public debt management objectives, the main aim of the Strategy was to minimise the costs of general Government debt financing within a reasonable level of risk, with particular attention to the refinancing risk of an existing debt portfolio. Therefore, the focal point of the Strategy was the reduction of refinancing risk over a medium-term time period. Refinancing risk is regarded as the most important indicator and takes priority when compared to other debt portfolio risk indicators, such as average-time to maturity, average-time to refixing, interest rate risk, and exchange rate risk.

The guidelines that drove the Strategy included smoothening of the maturity profile of debt, by years, and an extension in the maturity of marketable debt, risk mitigation through management of foreign exchange and interest rate risk, gradual development of the government securities market, as well as minimisation of borrowing costs.

With regard to this, the Ministry of Finance, after the adoption of the Strategy, in 2018 carried out a liability management operation through issuing bonds on the international market. On that occasion, Eurobonds were issued worth €500.00 million, with a seven-year maturity and an interest rate of 3.375 percent, which served to refinance part of the bonds maturing in 2019, 2020 and 2021. The refinanced value of bonds amounts to €362.35 million. In this way, the goal of reducing the pressure on public finances regarding debt repayment and repositioning bonds worth €500.00 million to 2025 was achieved.

In addition, Montenegro concluded the commercial loan arrangement supported by the Policy Based Guarantee of the World Bank, amounting to €250 million, with the maturity of 12 years and the grace period of 4 years.

These two operations contributed to extension of the average maturity of central Government debt from 4.6 years in 2017 to 5.2 years in 2018, with an average weighted interest rate of 3.0 per cent. per year, which shows decrease of 0.1 per cent. compared to 2017.

Furthermore, intending to diversify sources of funding and also to contribute to development of the domestic securities market, Montenegro successfully implemented the domestic bond issuance in 2019 the amount of approximately €143 million.

Through the adoption of the Strategy, the Ministry of Finance further improved the quality of the debt by extending the average time of maturity from 5.2 years in 2018 to 5.9 years in 2019. Further, the average weighted interest rate decreased from 3.0 per cent. in 2018 to 2.8 per cent. in 2019.

Government Guarantees

As at 31 December 2017, the total amount of outstanding guarantees issued by the Government was €312.8 million, or 7.28 per cent. of GDP. Out of this amount, guarantees for foreign and domestic creditors were €262.53 million and €50.27 million, respectively.

As at 31 December 2019, the total amount of the debt regarding outstanding guarantees issued by the Government was €244.30 million, or 4.93 per cent. of GDP. Guarantees for foreign and domestic creditors were €198.95 million and €45.35 million, respectively.

As at 30 September 2020, the total amount of the debt regarding outstanding guarantees issued by the Government was €218.6 million, or 4.7 per cent. of GDP. The debt related to Guarantees for foreign and domestic creditors were €176.9 million and €41.7 million, respectively.

In accordance with the Budget Law for 2019, the Government issued the following guarantees:

- €10 million for the loan facility between the syndicate of banks which includes the Prva Bank, the Erste Bank and the *Regionalni vodovod crnogorsko primorje*;
- €13 million for the loan facility between the Railway Infrastructure of Montenegro and the European Investment Bank ("**EIB**") for projects related to the reconstruction and improvement of railway infrastructure;
- €33 million for realisation of the loan facility between the EPCG and the German Development Bank ("**KfW**") for the reconstruction and modernisation of phase 2 of HE Perućica Plant;
- €12 million for the loan facility between the EBRD and the *Regionalni vodovod Crnogorsko primorje* for the implementation of the Extending Regional Water Supply System Project; and
- €1.2 million for the loan facility between Prva Bank of Montenegro and the Teachers' Housing Cooperative to build apartments for teachers in the Budva Municipality.

In accordance with the 2020 Budget Law, the Government planned to issue guarantees in the amount of €142.25 million. As of the date of this Prospectus, the Government issued a €50 million guarantee for the loan facility between the Deposit Protection Fund and the European Bank for Reconstruction and Development.

Multilateral and Bilateral Development Organisations

International Monetary Fund ("IMF")

After gaining independence in 2006, Montenegro became a member of the IMF on 18 January 2007. Montenegro continues to co-operate with the IMF in respect of technical assistance, macroeconomic policy, revenue management and spending, financial sector stability, macroeconomic and financial statistics, analysis and debt management. Specifically, the Ministry of Finance has had technical co-operation and expert support from the IMF, in order to create a new medium-term debt management strategy for the 2018-2020 period, as well as a market relation strategy. In 2020 the Ministry of Finance and the IMF entered into a financing agreement in the amount of SDR 60.5 million (approximately €74 million) utilising the IMF's Rapid Financing Instrument. The Ministry of Finance obtained this financing as a response to COVID-19.

World Bank (IBRD and IDA)

Montenegro became a member of the World Bank on 18 January 2007. In 2007, Montenegro entered into an agreement with the World Bank and the Republic of Serbia in relation to the assumption of certain liabilities entered into by Montenegrin entities prior to Montenegro's independence. As part of this agreement, Montenegro assumed the following liabilities: approximately €270 million to the IBRD, approximately SDR 46 million to the IDA and donations to various government institutions of approximately U.S.$1.46 million.

The Board of Directors of the World Bank adopted a Country Partnership Strategy for Montenegro for the period 2011-2014, which was later extended until 30 June 2015. Subsequently, the Country Partnership Framework ("**CPF**") was adopted for the period 2016-2020 by the World Bank Group, including the International Bank for Reconstruction and Development ("**IBRD**") and the International Development Association ("**IDA**") for Montenegro. Under the CPF, IBRD financing for Montenegro is estimated at approximately between U.S.$250 million and U.S.$300 million, which will depend on the implementation of specific measures which seek to put Montenegro back on a fiscally sustainable path. These measures can broadly be divided into two areas of focus: (i) fiscal consolidation, public spending efficiency and financial sector stability; and (ii) investment in skill-based programmes and general employment in the private sector. The latter is expected to be achievable through facilitating private sector investments through the IFC and the Multilateral Investment Guarantee Agency.

As at 30 September 2020, the total amount owed to the World Bank (including to the IBRD and the IDA) by Montenegro was €211.14 million, or 6.8 per cent. of external debt. The Government and the World Bank signed a €3 million loan agreement in 2016 for the Montenegro Institutional Development and Agriculture Strengthening (MIDAS – Additional Financing) project. In December 2017, the board of directors of the World Bank approved the First Fiscal and Financial Sector Resilience Policy-Based Guarantee ("**PBG**") for Montenegro, aiming to further support reforms in the field of public finance sustainability and financial sector resilience. The guarantee of €80 million enabled Montenegro to secure a loan amounting to €250 million, with a repayment period of 12 years, including a grace period of four years and an interest rate of EURIBOR + 2.95 per cent. The funds obtained through this agreement were used for the repayment of part of the Government debt in 2019. The facility agreement with the bank syndicate was signed in May 2018.

In 2018, the Government signed three loan agreements for projects with the World Bank: €6 million for an energy efficiency project – MEEP 2; €30 million for the second Institutional Development and Agriculture Strengthening Project – MIDAS 2; and €14 million for the Revenue Administration Reform Project.

In 2019, the Government signed a loan agreement with the IBRD to help finance the reform of the Tax Administration. In 2020, the Government and the IBRD entered in another loan agreement for €15 million to fund the regulation of the Drina and Sava Basin project and the River of Grnčar. Additionally, in 2020, the

Government entered into a syndicated loan agreement amounting €250 million supported by the IBRD's second policy based guarantee of €80 million.

World Bank loans to sovereigns typically have long maturities (up to 30 years) with interest rates calculated at LIBOR/EURIBOR plus a variable or fixed rate spread.

EBRD

After gaining independence, Montenegro became a member of the EBRD on 3 June 2006.

Montenegro is currently implementing projects related to local, regional and main roads, railway infrastructure, water supply and wastewater and the environmental rehabilitation of KAP. The notional amount of credit funds for current projects is approximately €96.7 million, while the total disbursed amount was €40.25 million as at 30 June 2019.

In 2017, Montenegro and EBRD signed a €40 million agreement for the rehabilitation and upgrade works to three road sections of Montenegro's main road. EBRD adopted a strategy for Montenegro in May 2017, which defined three main strategic priorities that the bank will focus on: enhancing competitiveness of the private sector, including by developing agri-business value chains and backward linkages in the tourism sector; improving connectivity and regional-integration by expanding cross-border transport and energy links; and continuing to foster transition to a green economy, including sustainable tourism.

From 2003 to 2015, Montenegro issued guarantees of €162.5 million for projects related to airport modernisation, the regional water supply network, for the Deposit Protection Fund, railway infrastructure projects and the project for the construction of an electricity transmission line. At the end of 2019, the total guarantee amount owed to the EBRD was €68.76 million, which was 34.53 per cent. of total foreign guarantee debt. These guarantees were for the loan facility between the EBRD and *Regionalni vodovod Crnogorsko primorje* in the amount of €12 million and for the loan agreement between the Deposit Protection Fund and the EBRD in the amount of €50 million.

EIB

In May 2007, a Framework Agreement was signed between Montenegro and the EIB pursuant to which the parties agreed terms relating to, among other things, the tax treatment of EIB, the treatment of projects financed by the EIB, public tendering procedures, and any privileges and immunities awarded to the EIB in relation to the loans, guarantees and other financial instruments provided by the EIB in connection with its investments projects in Montenegro.

The total value of projects which are currently under implementation through credit arrangements is about €224 million. At the end of 30 June 2019, the total disbursed amount for such projects was €158.6 million which was 70.8 per cent. of the total contracted amount.

In 2016, Montenegro and EIB entered into a loan for the "Water supply and wastewaters E" project in the amount of €25.5 million. In 2017, a €20 million credit agreement was concluded between the EIB and the Railway Infrastructure of Montenegro, for which the Government issued a €7 million guarantee. During 2019, the Government issued a guarantee in the amount of an additional €13 million, according to the 2019 Budget Law. In addition, in November 2018, Montenegro signed a €40 million loan agreement for the "Main Roads Rehabilitation Programme". In 2019, Montenegro entered into arrangement with the EIB amounting €18 million for reforms in the education sector. In 2020, Montenegro secured an additional €40 million in loans for the reconstruction of the main roads.

As at 30 September 2020, the total amount of the debt related to guarantees owed to the EIB was € 46.1 million, which is 26.0 per cent. of the total foreign guaranteed debt. From 2002, Montenegro issued guarantees for EIB projects related to airport modernisation, upgrades to roads, reconstruction of the electricity system, railway infrastructure projects and small and medium enterprises projects.

KfW

The projects that KfW finances in Montenegro are mostly in the energy sector (energy efficiency and renewable energy), in municipal infrastructure (water and sewage) and sustainable economic development (promoting micro, small and medium-sized enterprises and municipal credit lines). In 2017, Montenegro signed a €5 million standard loan agreement and a €30 million promotional loan agreement with KfW, both of which will be utilised for financing the "Collection and Treatment of Wastewater in Podgorica, Phase I" project.

During 2018, Montenegro issued a guarantee in favour of CGES for a €20 million loan facility between CGES and KfW for the construction of electricity infrastructure on the Luštica Peninsula.

During 2019, the EPCG and KfW entered in a loan agreement for the modernisation of the Perucica hydro plant, for which the Government issued state guarantee in the amount of € 33 million.

As at 30 September 2020, the total amount of the debt related to guarantees owed to the KfW was €17,95 million, which is approximately 10 per cent. of the total debt related foreign guarantees.

Council of Europe Development Bank ("CEB")

Montenegro became a member of the Council of Europe on 11 May 2007 and a member of the CEB on 19 November 2007. Montenegro is currently working with the CEB on financing for a project relating to housing for people with low income as well as for the construction and rehabilitation of pre-school and kindergarten facilities. As of 31 March 2019, the total contracted amount with the CEB was €47.8 million, while the withdrawn amount was €32.2 million. In 2017, Montenegro signed a €10 million loan agreement with the CEB related to housing for low- and middle-income households. This loan, along with €10 million in Government funding, contributed to the establishment of the 2017-2020 Social Housing Programme (the "**Social Housing Programme**"). The fourth phase of the Social Housing Programme was signed in 2019 and amounted to €10 million. The fifth phase is planned for 2021. The strategic objectives of the Social Housing Programme are to increase the accessibility of housing to households that cannot address their housing needs in the market, to support the development of the rental sector, both public and private, and to improve the system of managing and maintaining the housing stock. In addition, a €40 million agreement was entered into with the CEB in 2020 to support micro small and medium enterprises projects (MSEs) in Montenegro affected by COVID-19.

According to the 2019 Budget Law, the Government expects to sign a €15 million agreement with the CEB for the purpose of constructing a prison in Mojkovac, which is postponed for 2020.

Instrument for Pre-Accession Assistance ("IPA")

The IPA is the means by which the EU supports reforms in Enlargement Countries with financial and technical assistance. The IPA funds support for certain political and economic reforms in Enlargement Countries, which enables those countries to prepare for the rights and obligations that come with EU membership.

The successor to the IPA is the IPA II, which came into force on 16 March 2014 and is applicable retroactively from 1 January 2014. The IPA II sets a framework for providing pre-accession assistance for the period from 2014 until 2020. The IPA II targets reforms within the framework of pre-defined sectors, covering areas closely linked to the enlargement strategy, such as democracy and governance, rule of law or growth and competitiveness. Montenegro expects to complete its projects under the IPA in 2017.

Under the IPA II, Montenegro has been allocated €279.1 million (excluding the allocation for cross-border co-operation programmes). All available funds under IPA II have been successfully planned for specific projects. The priority sectors for funding under the IPA II for Montenegro are democracy and governance; rule of law and fundamental rights; environmental and climate action; transport; competitiveness and innovation;

education, employment and social policies; agriculture and rural development; and regional and territorial co-operation. During 2020, EU supported significantly Montenegrin Government in facing the consequences of COVID-19 pandemic, with €53 million which are reallocated for this purpose from IPA II programmes. Montenegro is also benefiting from regional IPA II programmes, Wester Balkans Investment Framework, but has also applied for EU Solidarity Fund for assistance due to COVID-19 consequences.

In parallel, Montenegrin Government has started programming of IPA III (which will be a successor of IPA II for the period 2021-2027). With new rules which are to be confirmed by the EU, Montenegro expects additional funds, especially in the area of infrastructure, which will support further economic recovery.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Montenegro of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Montenegrin Taxation

Under the Montenegrin Corporate Profit Tax Law (Official Gazette of Montenegro No 65/2001, 12/2002, 80/2004, 40/2008, 86/2009, 73/2010, 40/2011, 14/2012, 61/13 and 055/16), withholding tax of 9 per cent. is applicable to payments of interest in respect of the Notes except where any applicable double taxation treaty stipulates otherwise. Under Montenegrin Personal Income Tax Law (Official Gazette of Montenegro No 65/01, 12/02, 37/04, 29/05, 78/06, 4/07, 86/09, 73/10, 40/11, 14/12, 6/13, 62/13, 60/14, 79/15, 83/16 and 63/19) withholding tax at the rate of 9 per cent., and in the case of payments to non-residents, 5 per cent., is applicable to payments of interest to natural persons in respect of the Notes. In the event payment of interest in respect of the Notes is subject to withholding or deduction for any such tax pursuant to Condition 10 (*Taxation*), the Issuer has agreed to pay such additional amounts as will result in the receipt by Noteholders of such amounts as would have been received by them if no such withholding or reduction had been required, subject only to the exceptions set out in that Condition.

Under Montenegrin law, there is no requirement for any Noteholder or Accountholder to provide any identification to demonstrate, or certification to the effect, that it is not resident in Montenegro in order to be entitled to receive any such additional amounts.

Under Montenegrin law, in order to benefit from a double taxation treaty, any Noteholder or Accountholder would have to prove that it is a resident of the country with whom Montenegro has entered into a double taxation treaty and that it is the beneficial owner of the income.

Residents of Montenegro investing in Notes may be subject to capital gains tax upon sale of the Notes.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT, currently being considered by Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

At the ECOFIN Council meeting of 14 June 2019, a state of play of the work on the FTT was presented on the basis of a note prepared by Germany on 7 June 2019 indicating a consensus among the participating Member

States to continue negotiations on the basis of a joint French-German proposal based on the French financial transactions tax model which in principle would only concern shares of listed companies whose head office is in a Member State of the European Union. However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Certain U.S. Federal Income Tax Considerations

Each investor should seek advice from an independent tax adviser in determining the tax consequences of acquiring, holding, and disposing of the Notes based on such person's particular circumstances, including the application and effect of the laws of any federal, state, local or non-U.S. taxing jurisdiction and possible changes in tax law.

The following summary discusses certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the Notes. Except as specifically noted below, this discussion applies only to:

- Notes purchased on original issuance at their issue price;
- Notes held as capital assets (generally, property held for investment); and
- U.S. Holders (as defined below).

This discussion does not describe all of the tax consequences that may be relevant in light of a U.S. Holder's particular circumstances or to U.S. Holders subject to special rules, such as:

- persons engaged in banking, insurance, financial or similar business (and certain other affiliates);
- individual retirement accounts and other tax-deferred accounts;
- tax-exempt organisations;
- dealers (and electing traders) in securities, commodities or foreign currencies;
- persons holding Notes as part of a hedging transaction, straddle, conversion transaction or other integrated transaction for U.S. federal income tax purposes;
- U.S. Holders whose functional currency is not the U.S. Dollar;
- regulated investment companies and real estate investment trusts;
- U.S. Holders that are required to take certain amounts into income no later than the time such amounts are reflected on an applicable financial statement;
- investors holding the Notes in connection with a trade or business conducted outside of the United States;
- U.S. citizens or permanent residents living abroad; or
- former citizens and residents of the United States.

This summary is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), administrative pronouncements, judicial decisions and final, temporary and proposed U.S. Treasury Regulations, all as of the date of this Prospectus and any of which may at any time be repealed, revised or subject to differing interpretation, possibly retroactively so as to result in U.S. federal income tax consequences different from those described below. Persons considering the purchase of the Notes should consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under other U.S. federal tax rules (such as the Medicare contribution tax or the alternative minimum tax) and the laws of any state, local or non-U.S. taxing jurisdiction.

As used herein, the term "**U.S. Holder**" means a beneficial owner of a Note that is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation created or organised in or under the laws of the United States or of any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation on a net income basis regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

If an entity or arrangement that is classified as a partnership for U.S. federal income tax purposes holds Notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements classified as partnerships for U.S. federal income tax purposes should consult their tax advisers regarding the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of the Notes by the partnership.

Payments of Interest

General. Interest paid on a Note will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes. For foreign tax credit purposes, such income will be considered to arise from sources outside the United States and generally will be treated as a passive category income.

Euro Denominated Interest. The amount of income recognised by a cash basis U.S. Holder in respect of interest paid in euros on the Notes will be the U.S. Dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. Dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment on the Notes in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within each taxable year).

Under the second method, the accrual basis U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within each taxable year). Additionally, if a payment of interest on the Notes is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. Dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the U.S. Internal Revenue Service (the "**IRS**").

Upon receipt of an interest payment on the Notes (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note), the accrual basis U.S. Holder may recognise U.S. source exchange gain or loss (taxable as U.S. source ordinary income or loss) equal to the difference between the amount received (translated into U.S. Dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. Dollars.

Effect of Montenegrin Withholding Taxes. As discussed in "Taxation—Montenegrin Taxation", under current law, payments of interest on the Notes to foreign investors are subject to Montenegrin withholding taxes. The Issuer is liable for the payment of additional amounts to U.S. Holders (see "*Terms and Conditions of the Notes—Taxation*") so that U.S. Holders receive the same amounts they would have received had no Montenegrin withholding taxes been imposed. For U.S. federal income tax purposes, U.S. Holders will be treated as having received an amount equal to the amount of any Montenegrin taxes withheld by the Issuer with respect to a Note, and as then having paid such amount to the Montenegrin taxing authorities. As a result, the amount included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest, plus any additional amounts with respect thereto, will be greater than the amount of cash actually received by the U.S. Holder from the Issuer with respect to the payment. Subject to certain limitations, a U.S. Holder generally will be entitled to a credit against its U.S. federal income tax liability, or, if the U.S. Holder so elects, a deduction in computing its U.S. federal taxable income, for Montenegrin income taxes withheld by the Issuer. Any election to deduct non-U.S. taxes instead of claiming U.S. foreign tax credits must apply to all applicable non-U.S. taxes paid or accrued in the taxable year. The rules governing foreign tax credits are complex. U.S. Holders should consult their tax advisers concerning the foreign tax credit implications of Montenegrin withholding taxes.

Sale, Exchange or Retirement of the Notes

Upon the sale, exchange or retirement of a Note, a U.S. Holder will, generally, recognise U.S. source taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the U.S. Holder's adjusted tax basis in the Note, in each case as determined in U.S. Dollars. For these purposes, the amount realised does not include any amount attributable to accrued but unpaid interest on the Note, which is treated like a payment of interest as described under "*—Payments of Interest*" above. A U.S. Holder's adjusted tax basis in a Note generally will equal the U.S. Dollar acquisition cost of the Note.

A U.S. Holder will recognise exchange rate gain or loss (taxable as ordinary income or loss) on the sale, exchange or retirement of a Note equal to the difference, if any, between the U.S. Dollar values of the U.S. Holder's EUR purchase price for the Note (i) on the date of sale, exchange or retirement and (ii) the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss (including any gain or loss with respect to the receipt of accrued but unpaid interest) will be realised only to the extent of total gain or loss realised on the sale, exchange or retirement.

The remainder of any gain or loss realised on the sale, exchange or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the U.S. Holder has held the Note for more than one year. The deductibility of capital losses is subject to limitations.

U.S. Holders should consult their own tax advisers regarding the calculation of the U.S. Dollar value of payments received upon sale, exchange or retirement of the Notes and the foreign tax credit implications of the sale, exchange or retirement of the Notes.

Further Issues

The Issuer may, without the consent of the Noteholders of outstanding Notes, issue additional notes with identical terms. These additional notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional notes may be considered to have been issued with original issue discount for U.S. federal income tax purposes ("**OID**") even if the original Notes had no OID. These differences may affect the market value of the original Notes if the additional notes are not otherwise distinguishable from the original Notes.

Information Reporting and Backup Withholding

Information returns may be filed with the IRS in connection with payments on the Notes and the proceeds from a sale or other disposition of the Notes unless a U.S. Holder establishes that it is an exempt recipient. A U.S. Holder may be subject to U.S. backup withholding on payments subject to information reporting if it fails to provide its tax identification number or otherwise fails to comply with certain certification procedures. Certain U.S. Holders are not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, **provided that** the required information is timely furnished to the IRS.

Other Reporting Obligations

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. Under the relevant rules, if the Notes are denominated in a foreign currency, a U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations, and to disclose its investment by filing Form 8886 with the IRS. Significant penalties may be imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules.

Certain U.S. Holders that hold certain "specified foreign financial assets" (such as the Notes) may be required to file an information report with respect to such assets on their tax returns. U.S. Holders should consult their tax advisers about the rules relating to "specified foreign financial assets" reporting and any other reporting or filing obligations that apply as a result of the acquisition, holding or disposition of the Notes. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

SUBSCRIPTION AND SALE

Each of Citigroup Global Markets Limited, Erste Group Bank AG, Merrill Lynch International and Société Générale (together, the "**Joint Lead Managers**") has, pursuant to a subscription agreement entered into by them with the Issuer and dated 14 December 2020 (the "**Subscription Agreement**"), severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to the Issue Date.

The Joint Lead Managers and their respective affiliates may have engaged in transactions with the Issuer in the ordinary course of their banking business and the Joint Lead Managers, and their respective affiliates, may have performed various investment banking, financial advisory and other services for the Issuer, for which they receive customary fees, and the Joint Lead Managers and their respective affiliates may provide such services in the future.

In addition, certain of the Joint Lead Managers and their respective affiliates have extended loans to the Issuer in the ordinary course of business. The amounts of outstanding indebtedness currently owed by Montenegro to such parties are set out under "*Indebtedness—Overview—Central Government Debt*".

United States

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in accordance with any applicable State securities laws. Accordingly, the Joint Lead Managers have agreed, severally and not jointly, to offer the Notes for resale in the United States initially only to persons who they reasonably believe to be QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the respective meanings given to them by Regulation S.

The Notes are being offered and sold by the Joint Lead Managers outside the United States in accordance with Regulation S. The Subscription Agreement provides that the Joint Lead Managers may through their respective U.S. affiliates resell a portion of the Notes within the United States only to persons reasonably believed to be QIBs in reliance on Rule 144A. The Joint Lead Managers will effect any sales of the Notes in the United States only through their respective U.S. broker-dealer affiliates or through one or more other U.S. registered broker-dealers as permitted by the Financial Industry Regulatory Authority, Inc.'s regulations or any other applicable U.S. laws and regulations.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

1 it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

2 it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Montenegro

Each Joint Lead Manager has represented, warranted and agreed that it will not, as part of its initial distribution of the Notes, offer or sell any Notes to residents of Montenegro or legal entities incorporated in Montenegro unless such residents or legal entities are authorised or licensed under Montenegrin law to acquire, hold, manage or dispose of the Notes on the date of the relevant offer or sale.

Singapore

Each Joint Leader Manager has acknowledged that the Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore (the "**MAS**") under the Securities and Futures Act, Chapter 289 of Singapore, as amended or modified from time to time (the "**SFA**"). Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

General

No action has been or will be taken in any jurisdiction by the Issuer or any Joint Lead Manager that would permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Each Joint Lead Manager has represented, warranted and agreed that it has, to the best of its knowledge and belief, complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any other offering material relating to the Notes. Persons into whose hands this Prospectus comes are required by the Issuer and each Joint Lead Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

(1) Clearing Systems

The Notes have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems. The Common Codes and ISINs for the Regulation S Notes and the Rule 144A Notes are as follows:

Regulation S Notes

Common Code: 227057670

ISIN: XS2270576700

Rule 144A Notes

Common Code: 227057688

ISIN: XS2270576882

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

(2) Admission to Trading

It is expected that admission of the Notes to the Official List and to trading on the Market will be granted on or around 17 December 2020, subject only to the issue of the Global Note. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in United States dollars and for delivery on the third working day after the day of the transaction. The expenses in connection with the admission of the Notes to the Official List and trading on the Market are expected to amount to approximately £5,515.

(3) Authorisations

The Issuer has obtained all necessary consents, approvals and authorisations in Montenegro in connection with the issue and performance of the Notes. The issue of the Notes was authorised pursuant to the 2020 Budget Law (Official Gazette of Montenegro Nos. 74/19 and 61/20), the Borrowing Decision (Official Gazette Nos. 74/19 and 61/20) and other decisions (*zakljuci*) of the Government.

(4) Significant Change

Since 31 December 2019, the economy of Montenegro has been materially and adversely affected by the onset of the COVID-19 pandemic. To reduce the risk of transmission of the virus, Montenegro has implemented a number of restrictive measures which have had an impact on day-to-day life of Montenegrin residents, business activity within the country, as well the ability of tourists to visit the country, with tourist arrivals declining dramatically. Despite the fiscal and economic policies introduced by the Government to mitigate the adverse effects of the global pandemic and the restrictive measures introduced in Montenegro, real GDP of Montenegro declined by 10.2 per cent. in the first half of 2020 and is expected to decline by 14.2 per cent. in 2020 based on Government estimates. Fiscal measures adopted to mitigate the economic effects of the pandemic resulted in an increase in public sector borrowing requirements with the general government budget deficit for 2020 expected to amount to 10.6 per cent. of GDP, while the country's general government debt to GDP ratio is expected to increase to 88.6 per cent. of GDP from 76.54 per cent. of GDP at the end of 2019 (based on the latest available indicators as at 30 June 2020). The projection for the general Government debt at end of 2020 does not include the proposed offering of the Notes.

Save as set out above, and as further disclosed in sections titled (1) "*Overview*" under headings "— The Economy", "— *Recent Developments*", "— Political System and Developments", (2) "*Risk Factors*" under headings "—*Risks Associated with Emerging Markets*", "— *Risk Factors Relating to Montenegro's Economy"*, "*Risks Associated with Montenegro's Debt*" and "—*Risks Relating to Montenegro's Economy*" and (3) "Montenegro" under heading "—*Political System and Developments*", (4) "*The Economy*" under headings "—*Economic Developments and Trends*", "—Inflation" and "—Wages", (5) "*Balance of Payments and Foreign Trade*", (6) "*Monetary and Financial System*" (7) "*Indebtedness" under the heading "—Public Debt*" and (8) under the heading "*Public Finance*", there has been no significant change in the Issuer's (i) tax and budgetary systems, (ii) gross public debt, (iii) foreign trade and balance of payment figures, (iv) foreign exchange reserves, (v) financial position and resources and (vi) income and expenditures figures since 31 December 2019.

(5) Litigation

Other than as disclosed in "*The Economy—Metals Manufacturing—KAP—KAP arbitration proceedings*", there are no and have not been any governmental, legal or arbitration proceedings against the Issuer (including any such proceedings which are pending or threatened of which the Issuer is aware), which may have, or have had during the 12 months preceding the date of this Prospectus, a significant effect on the Issuer's financial position.

(6) Yield

The yield of the Notes is 2.950 per cent. on an annual basis. The yield is calculated as at the Closing Date on the basis of the Issue Price. It is not an indication of future yield.

(7) Documents on Display

For the period of 12 months starting on the date of this Prospectus, copies of the following documents may be inspected at the specified office of the Paying Agent and Transfer Agent during normal business hours and on the websites of the Issuer indicated below:

(a) the Fiscal Agency Agreement (http://www.mif.gov.me/en/sections/state-debt/);

(b) this Prospectus and any supplements thereto (http://www.mif.gov.me/en/sections/state-debt/);

(c) the Fiscal Strategy of Montenegro 2017-2020 (http://www.mf.gov.me/en/news/176344/Montenegro-Fiscal-Strategy-2017-2020.html);

(d) Budget Deficit and Public Debt Recovery Plan for the period 2017-2021 (http://zakoni.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/69/1343-8475-33-16-7.pdf); and

(e) the 2020 Budget Law, which sets out Montenegro's budget for the current fiscal year (Budget Law of 2019: http://www.gov.me/biblioteka/predlozi-zakona; Supplemental Budget for 2020: (https://www.gov.me/biblioteka/predlozi-zakona).

The document referred to in paragraph (c) above has been translated into English from the original Montenegrin. This translation constitutes a direct and accurate translation of the Montenegrin language text. In the event of a discrepancy, the Montenegrin version shall prevail.

(8) Third Party Information

Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third-party information is identified where used.

(9) Legal Entity Identifier

The Legal Entity Identifier of the Issuer is 747800V014106FYLL014.

(10) Joint Lead Managers Transacting with the Issuer

Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and its affiliates in the ordinary course of business. Certain of the Joint Lead Managers and their affiliates may have positions, deal or make markets in the Notes, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and its affiliates. Certain of the Joint Lead Managers and their affiliates that have a lending relationship with Issuer routinely hedge their credit exposure to Issuer consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Furthermore, certain of the Joint Lead Managers and their respective affiliates have extended loans to the Issuer in the ordinary course of business. The amounts of outstanding indebtedness currently owed by Montenegro to such parties are set out under "*Indebtedness—Overview—Central Government Debt*".

(11) Information on websites

Except where such information has been incorporated by reference into this Prospectus, the contents of the Issuer's website, any website mentioned in this Prospectus or any website directly or indirectly linked to these websites have not been verified and do not form part of this Prospectus and investors should not rely on such information.

THE ISSUER

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