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Institutional Framework, Current Investments and Future Strategic Direction for Development of Construction Sector in Montenegro

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Abstract

Even though it entered the privatization process unprepared, and despite the privatization process leading to the collapse of a vast number of the largest construction companies, the construction sector in Montenegro has undergone a significant expansion in the period between 2005-2008. This was possible thanks to the opening of the Montenegrin market and creation of a favorable investment climate and a large inflow of foreign direct investment. However, the global financial crisis and a recession in the developed market economies after the mentioned period was affected by the slowdown of economic growth in Montenegro including the construction industry.

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Keywords: construction sector in Montenegro, construction industry, institutional framework, current investments, future strategic development directions.

1. Introduction

Notwithstanding the significant expansion in the period 2005-2008, it can be said that the Montenegrin construction companies encountered the investment boom unprepared.

That was characterized with a low level of organizational culture and training of a primarily managerial structure;

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established ownership-management structures that are focused on short-term financial goals; selection of a low-cost strategy as a competitive advantage instead of diversification; modest vertical and horizontal connections within the sector; commitment to organic growth as well as exclusive development strategy and so on [1].

The development of construction industry in the past period was initiated with the development of tourism and investments to improve underdeveloped infrastructure [2, 3].

In particular the situation in the construction industry in the past period was characterized by three main phenomena:

- a significant increase in the volume of investments in Montenegro,
- change of the structure of investors, expressed in the dominant participation of foreign direct investments, as well as investments realized with foreign banks loans as well as loans from international financial institutions,
- international competition on domestic market.

2. Institutional Framework of the construction sector development in Montenegro

The global financial crisis and a recession in the developed market economies after 2008 affected the slowdown of economic growth in Montenegro including the construction industry.

The situation in the construction industry has closely been associated with the condition of the entire economy and can be seen from the data in the following table (Tab. 1) [4].

Table 1. Relevant data on the state of the construction industry from 2004 until 2012

Year	Gross Domestic Product GDP	Gross added value in constr.	Share of constr. in GDP	Retail	Total number of employees	Number of employees in constr.	Percentage of employee in constr.	Value of constr. works	Effective hours of work
	Thousand [EUR]	Thousand [EUR]	[%]	Thousand			[%]	Thousand [EUR]	Thousand
2004	1.565,071	46.822	3.0%	622.118	143.479	6.879	4.8%	109.602	4.514
2005	1.785,301	54.192	3.0%	623.277	144.340	7.563	5.2%	130.104	5.345
2006	2.148,998	76.039	3.5%	624.241	150.800	6.853	4.5%	259.880	8.424
2007	2.422,800	155.108	6.4%	626.188	156.408	6.647	4.2%	285.345	8.280
2008	3.085,621	190.750	6.2%	628.804	166.221	8.831	5.3%	412.352	9.994
2009	2.980,967	161.538	5.4%	631.536	174.152	9.997	5.7%	362.430	8.071
2010	3.103,855	156.969	5.1%	618.757	161.742	7.903	4.9%	303.454	8.008
2011	3.234,060	158.080	4.9%	620.556	163.082	7.966	4.9%	336.484	9.560
2012	3.148,857	145.192	4.6%	620.008	166.531	8.360	5.0%	257.288	8.678

Source: Statistical Yearbooks 2006-2013, Monstat

In the indicators movement related to the construction industry, a tremendous growth from 2004 to 2008 can be seen while the share of construction in GDP in the same period is within the margins of 3 to 6.4%. That is significantly below the EU average, where the rates are between 11% and 12%. In the same period, the percentage of employees in the construction industry ranged from about 4 to 5.3% of total employment while the European

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