

## **MONTENEGRO ECONOMY REPORT**

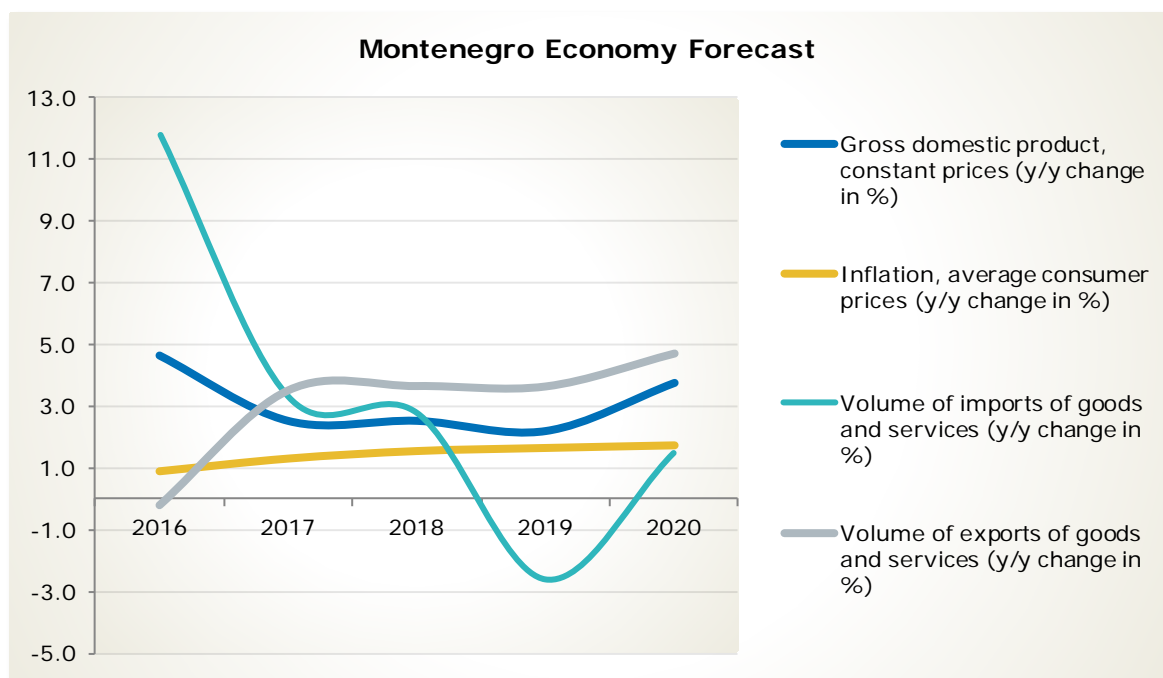
Q1 2016

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

MONTENEGRO – MACROECONOMIC SNAPSHOT AS OF Q1 2016	
<b>GDP Growth</b>	1.1% y/y
<b>Industrial output</b>	-9.2% y/y
<b>Industrial sales</b>	-40.3% y/y
<b>Retail sales</b>	1.1% y/y
<b>Annual inflation</b>	0.0%
<b>Unemployment rate</b>	19.1%
<b>Number of building permits</b>	13.5% y/y
<b>Household loans</b>	3.4% y/y
<b>MNSE10 blue-chip index</b>	1,019 points (base = 1,000 points)
<b>Gross External Debt</b>	EUR 2.224 bln
<b>Current account deficit</b>	EUR 283.9 mln
<b>FDI inflow</b>	EUR 249.1 mln (Jan-Apr 2016)
<b>Foreign trade deficit</b>	EUR 315.7 mln
<b>Number of foreign tourist overnights</b>	15.2% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2016

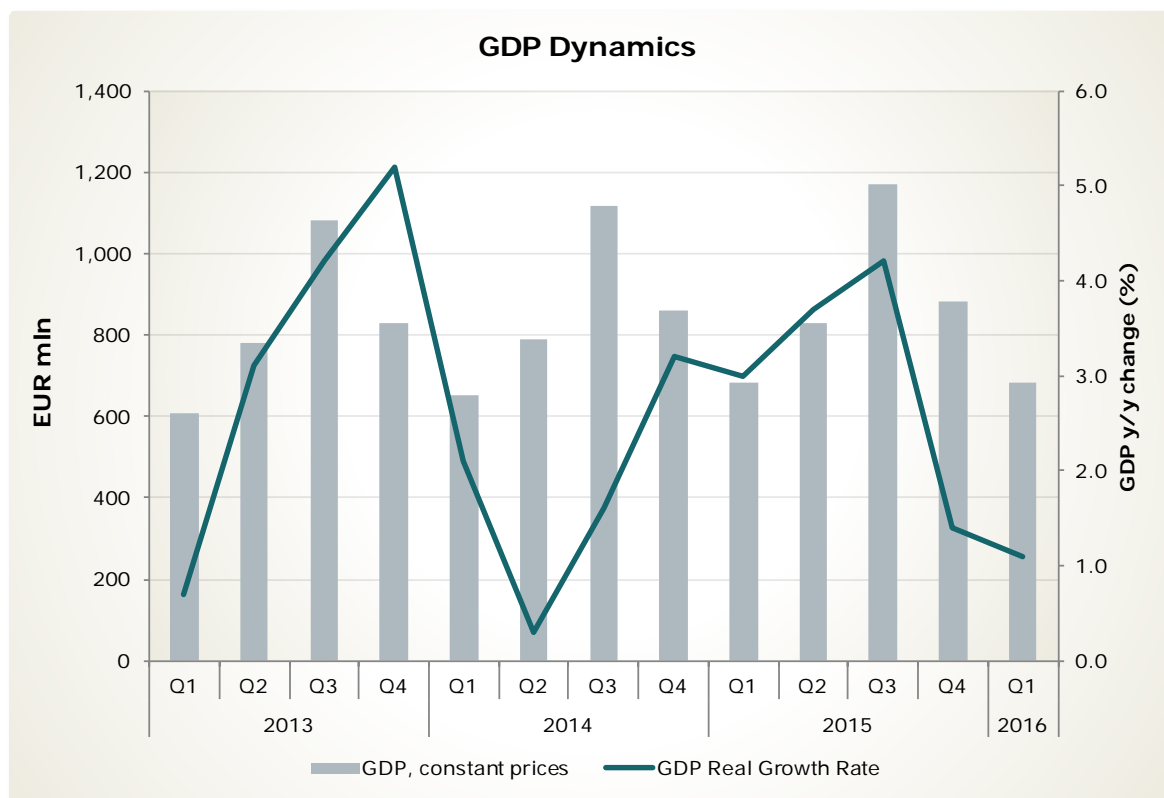
## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

*GDP went up by real 1.1% y/y in Q1 2016, compared to a 3.0% y/y growth a year ago*

The country's real GDP annual growth was 1.1% in the first quarter of 2016, according to the Statistical Office of Montenegro (MONSTAT). The GDP totalled EUR 684.5 mln in constant prices in Q1 2016, compared to EUR 683.7 mln in the corresponding quarter of the previous year.

Final consumption increased in value terms by 3.1% on the year to EUR 775.2 mln in Q1 2016. Gross capital formation went up by 9.9% to EUR 151.4 mln. Imports grew by 14.3%, while exports fell by 4.0%.



Source: MONSTAT

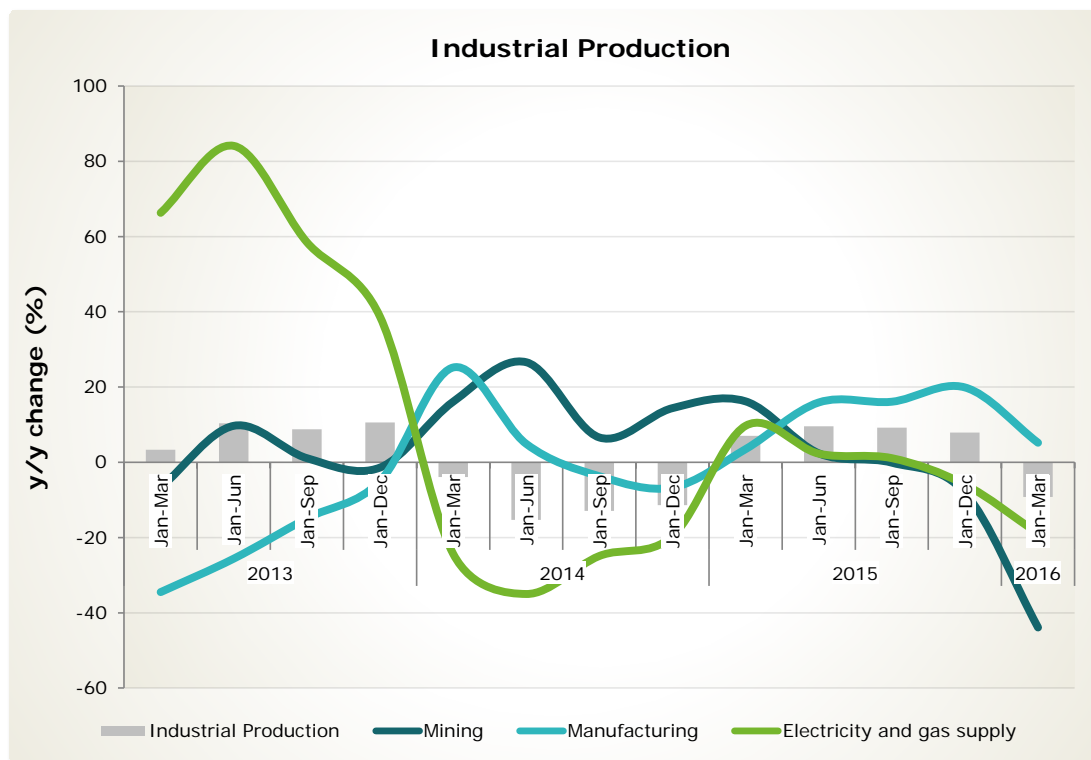
## 2.2. INDUSTRIAL OUTPUT

### *Industrial output down 9.2% y/y in Jan-Mar 2016*

Industrial output went down by 9.2% on the year in January to March 2016, according to MONSTAT.

The overall drop was caused by the 43.9% slump of the production of the mining industry and the 18.9% fall of the electricity and gas supply output. The manufacturing industry performed good, registering a 5.20% annual increase.

Manufacture of tobacco products experienced the sharpest annual drop in production – 80.3%, while manufacturing of basic pharmaceutical products more than doubled thus being the segment with the highest annual production growth.



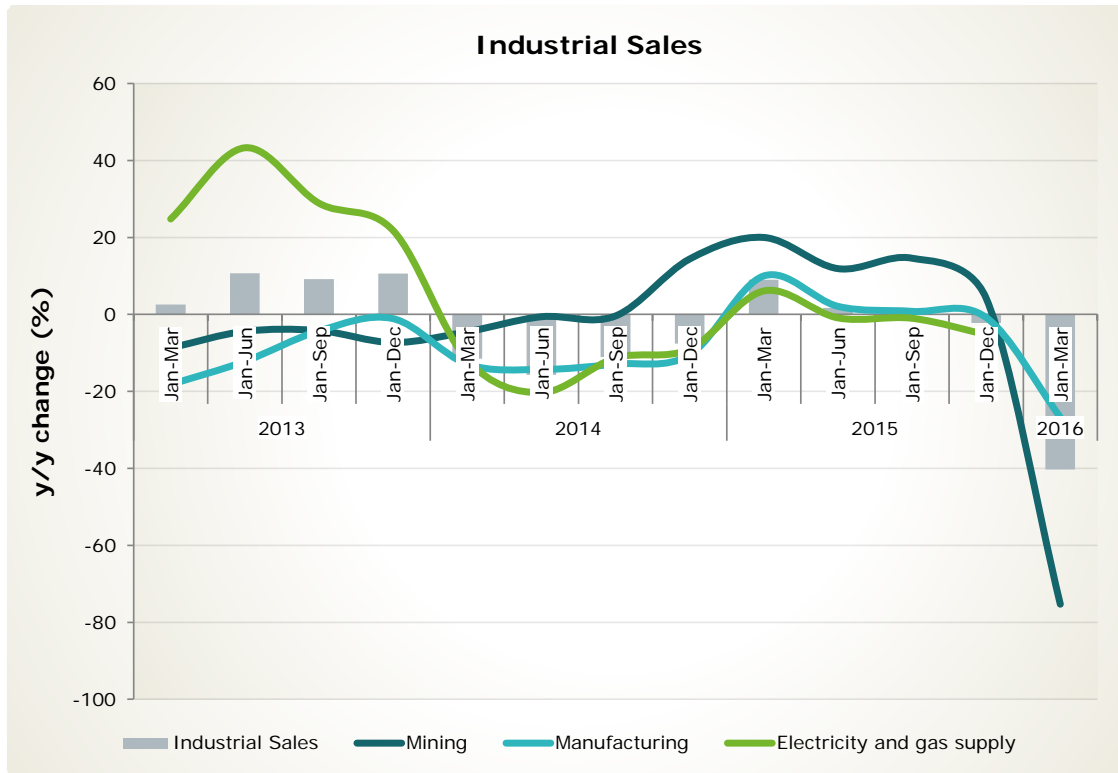
Source: MONSTAT

## 2.3. INDUSTRIAL SALES

### *Industrial sales shrank by 40.3% y/y in Jan-Mar 2016*

Industrial sales slumped by an annual 40.3% in January to March 2016, according to MONSTAT.

The downtrend in the first quarter was due to the 75.3% annual drop in the sales of the mining and quarrying sector, and the 26.7% decrease in the sales of the manufacturing sector.



Source: MONSTAT

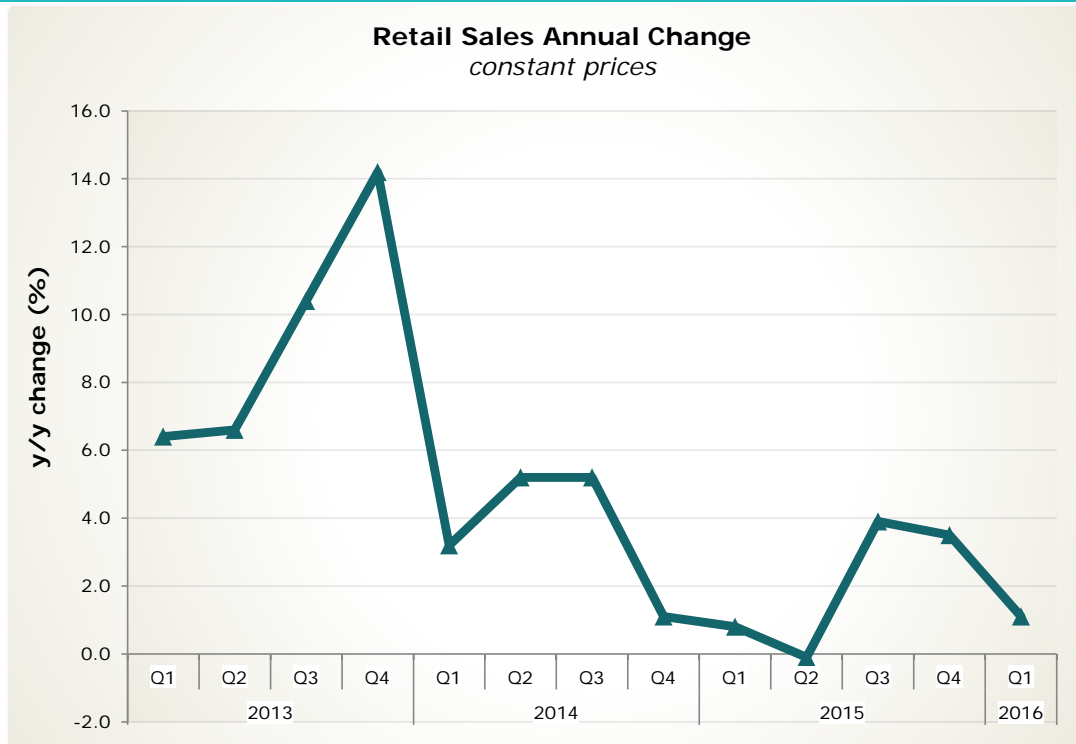
Editor's note: Data for electricity and gas supply sales was not available for January - March 2016.

## 2.4. WHOLESALE/RETAIL

### Retail grew y/y in Q1 2016

Retail sales went up by 1.1% in constant prices in the first quarter of 2016, compared to the corresponding quarter of the previous year, according to MONSTAT data.

Retail trade of second hand goods in shops led the ranking in terms of sharpest average annual increase with 20.7%, while retail trade of automotive fuel was on the opposite end with a 1.8% decline.



Source: MONSTAT

### Wholesales went up by 6.5% y/y in 2015\*

*\*Wholesales data is only annual*

The wholesale sector grew by 6.5% y/y in 2015, MONSTAT data showed. The wholesale turnover totalled EUR 1.867 bln in 2015, compared to EUR 1.753 bln in the previous year and EUR 1.720 bln in 2013.

In 2015, the largest share in the total wholesale turnover, 18.9%, had sales of hard, liquid and gas fuels, ahead of pharmaceutical products with a 10.3% share and non-alcoholic and alcoholic drinks with a 9.6% share.

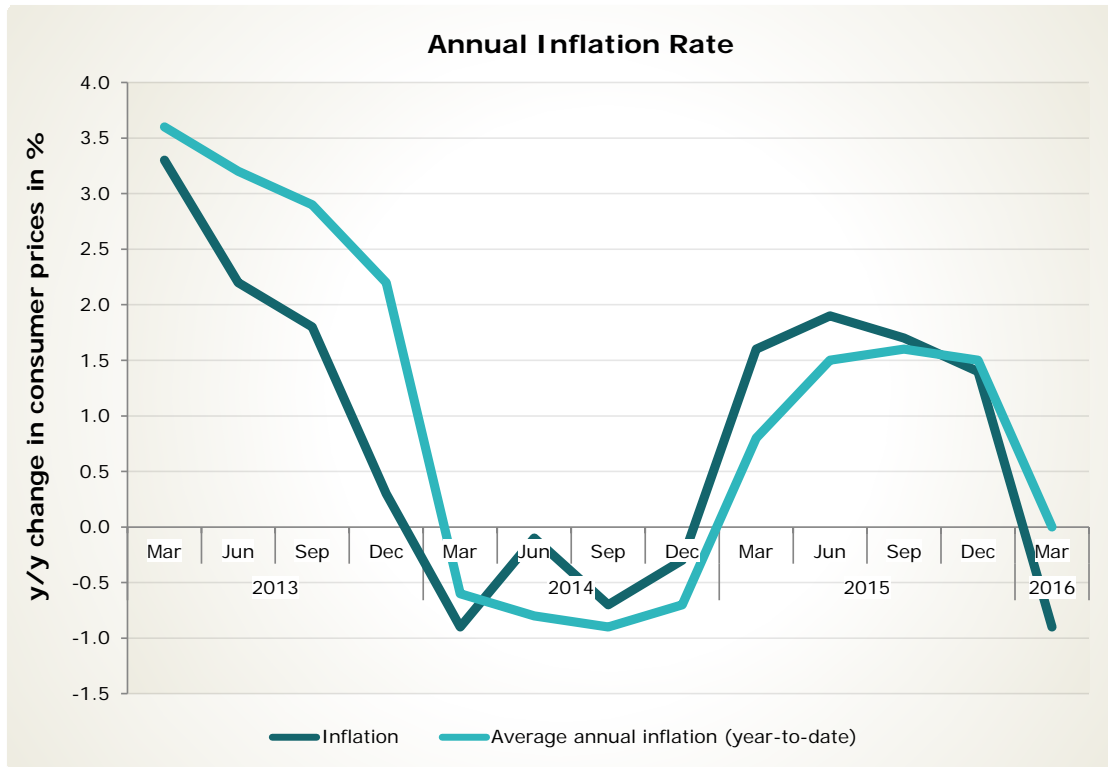
Wholesale of pharmaceutical products came on top in terms of highest annual growth with 17.1%, while scrap and waste wholesale dropped the sharpest, by 15.0%, thus accounting for only 0.06% of the total wholesales.

## 2.5. INFLATION

### Nor inflation, nor deflation in Jan-Mar 2016

Montenegro registered nor inflation, nor deflation for the first three months of 2016, according to MONSTAT data.

Segment wise, the highest annual increase in consumer prices, of 3.1%, was registered in alcoholic beverages and tobacco, while transport service prices dropped the most - 4.6%.

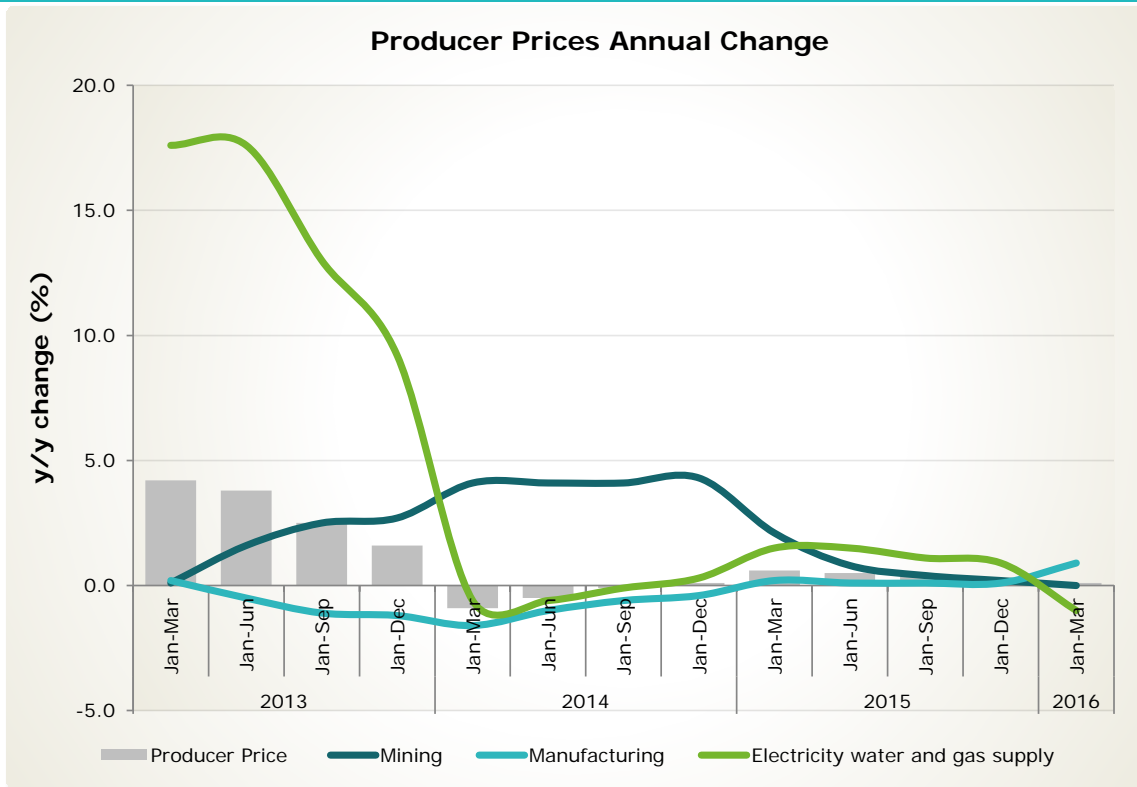


Source: MONSTAT

Producer prices inched up by 0.1% y/y in January - March 2016. The manufacturing industry registered an annual increase in producer prices of 0.9%, while producer prices in the electricity, gas and water supply sector decreased by 1.0%.

Looking by sectors, producer prices grew the most, by 11.6%, in the manufacturing of leather and leather products, while the sharpest decline, of 1.1%, was registered manufacturing of food products, and manufacturing of basic pharmaceutical products and preparations.





Source: MONSTAT

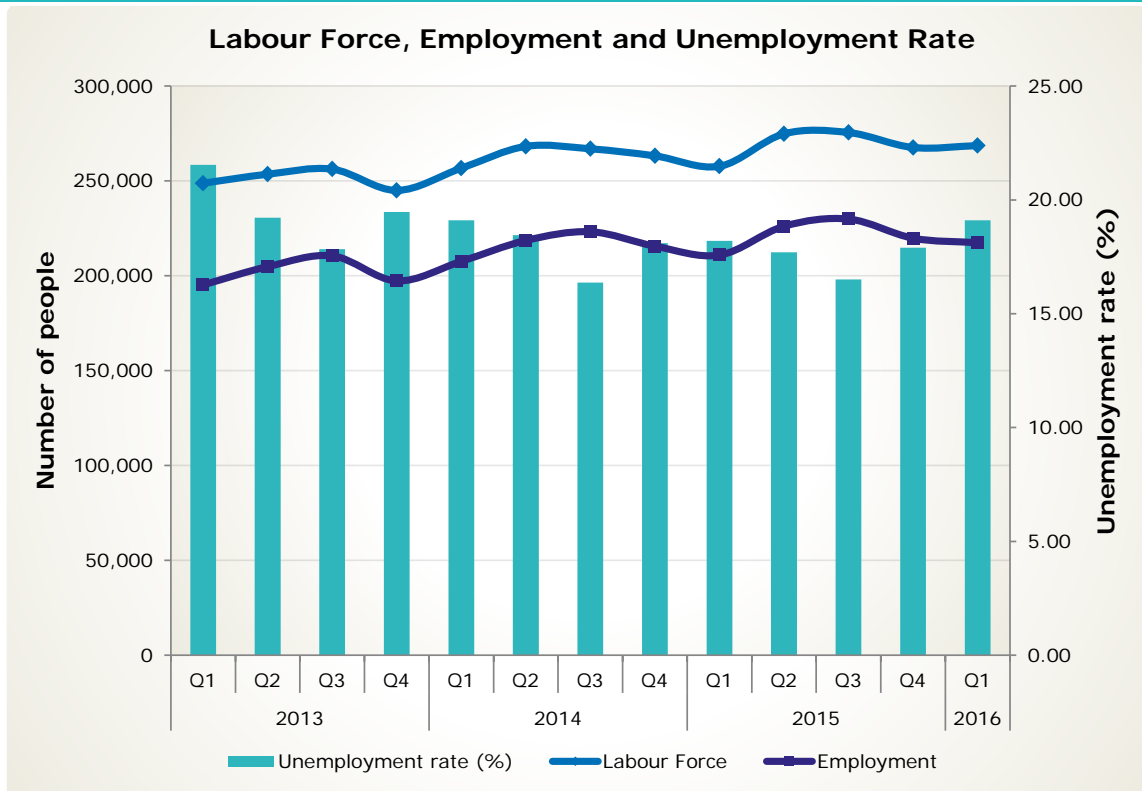
### 3. LABOUR MARKET

#### Unemployment rate at 19.1%, wages up 2.1% y/y in Q1 2016

Unemployment in Montenegro grew to 19.1% of the total labour force in Q1 2016 from 18.2% in the corresponding quarter a year ago, according to data of MONSTAT.

The employed population aged 15 years and older was 217,400 people in Q1 2016, up by 3.1% compared to the 210,900 a year earlier.

The youth (population aged 15-24) unemployment rate went up to 38.9% from 36.7%.



Source: MONSTAT

The average monthly net salary in Q1 2016 increased by 2.1% y/y to EUR 490, according to MONSTAT.

Employees in the financial and insurance activities had the highest average monthly net salaries, of EUR 902, followed by the electricity and air conditioning supply with EUR 864, and real estate activities with EUR 755.

The lowest wage, of EUR 310, was paid in the administrative and support service activities. Wholesale and retail trade, repair of motor vehicles and motor recycles sector followed with EUR 338 and the employed in the arts, entertainment and recreation earned the third lowest wages in the country, of EUR 382.

## 4. CONSTRUCTION AND REAL ESTATE

### *The number of building permits grew by 13.5% y/y in Q1 2016*

The number of building permits issued in Montenegro in Q1 2016 increased by 13.5% y/y and totalled 168, according to MONSTAT data.

Despite the overall growth, the number of dwellings, covered by the permits, decreased by 21.1% to 542 and their total built-up area shrank to 39,836 sq m from 53,218 sq m.

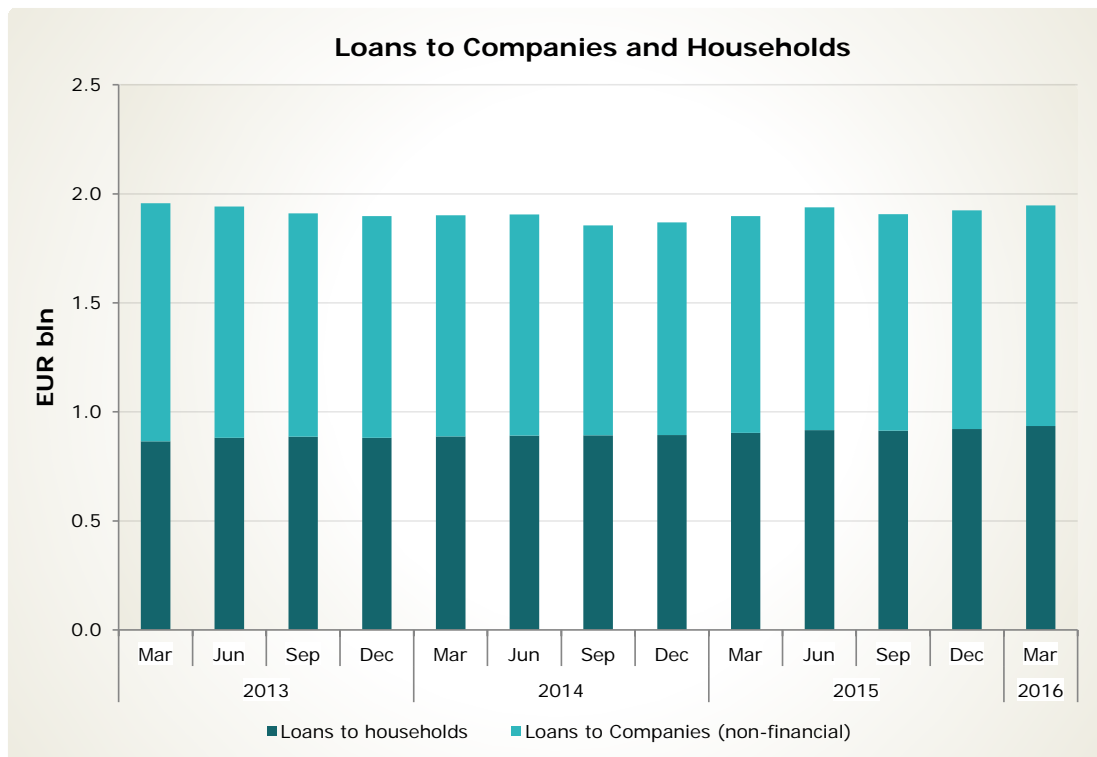
The average dwelling price inched down to EUR 1,057 per sq m in Q1 2016 from EUR 1,081 per sq m a year earlier. Among the major cities, the average price was the highest – EUR 1500 per sq m in coastal Bar, while the lowest average price, of EUR 649 per sq m, was registered in Niksic, western Montenegro.

## 5. BANKING AND INSURANCE

### Household loans increased by 3.4% y/y at end-March 2016

Loans to the non-government and non-financial sector totalled EUR 1.950 bln as of March 2016, up by 2.5% y/y, according to Central bank of Montenegro (CBCG).

Household loans grew by 3.4% to EUR 935.3 mln, accounting for 48.0% of the total loans to the non-government and non-financial sector, while corporate loans increased by 1.8% to EUR 1.011 bln, thus slicing a 51.8% share.



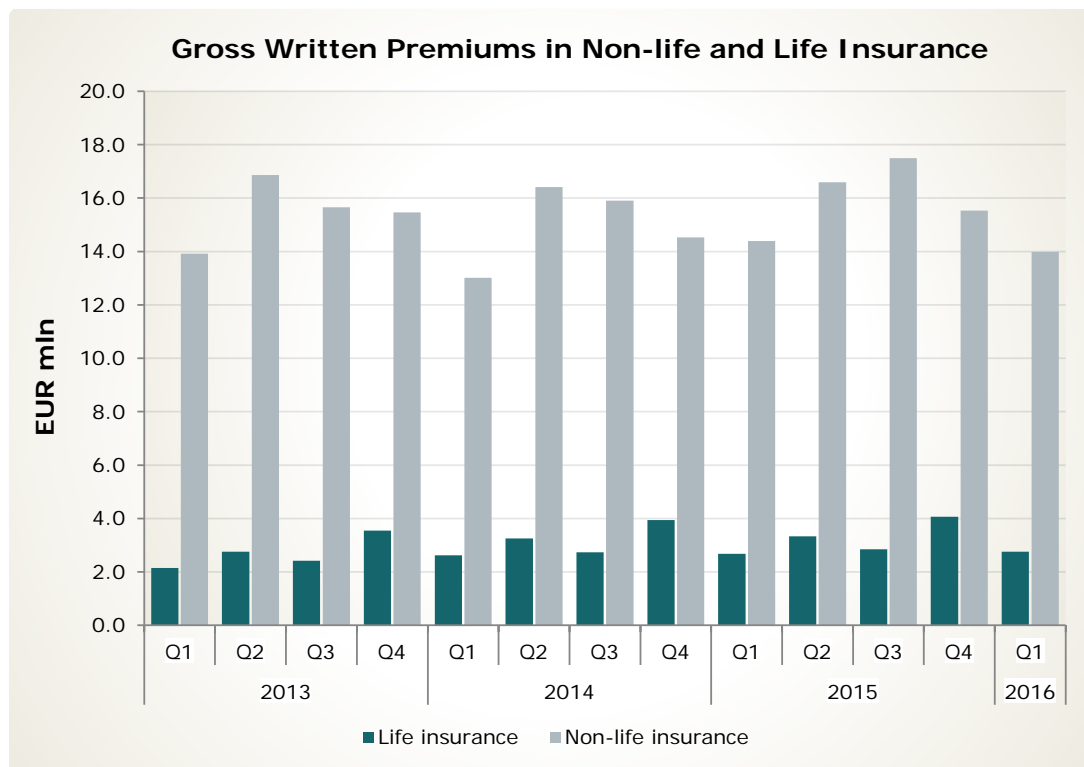
Source: CBCG

The total assets of the banking system reached EUR 3.585 bln at the end of March 2016 versus EUR 3.309 bln a year earlier. Among the liabilities, the sum of deposits also grew – to EUR 2.610 bln from EUR 2.315 bln.

### Insurance premiums went down 1.8% y/y in Q1 2016

The total gross written premiums of the Montenegrin non-life and life insurance companies stood at EUR 16.748 mln, down by 1.8% y/y, in the first quarter of 2016, according to the country's Insurance Supervision Agency (ANO).

The premiums of the non-life insurance market stood at EUR 13.987 mln, or by 2.8% less than a year earlier, while the life insurance sector grew by 3.2% to EUR 2.761 mln.



Source: ANO

## 6. CAPITAL MARKETS

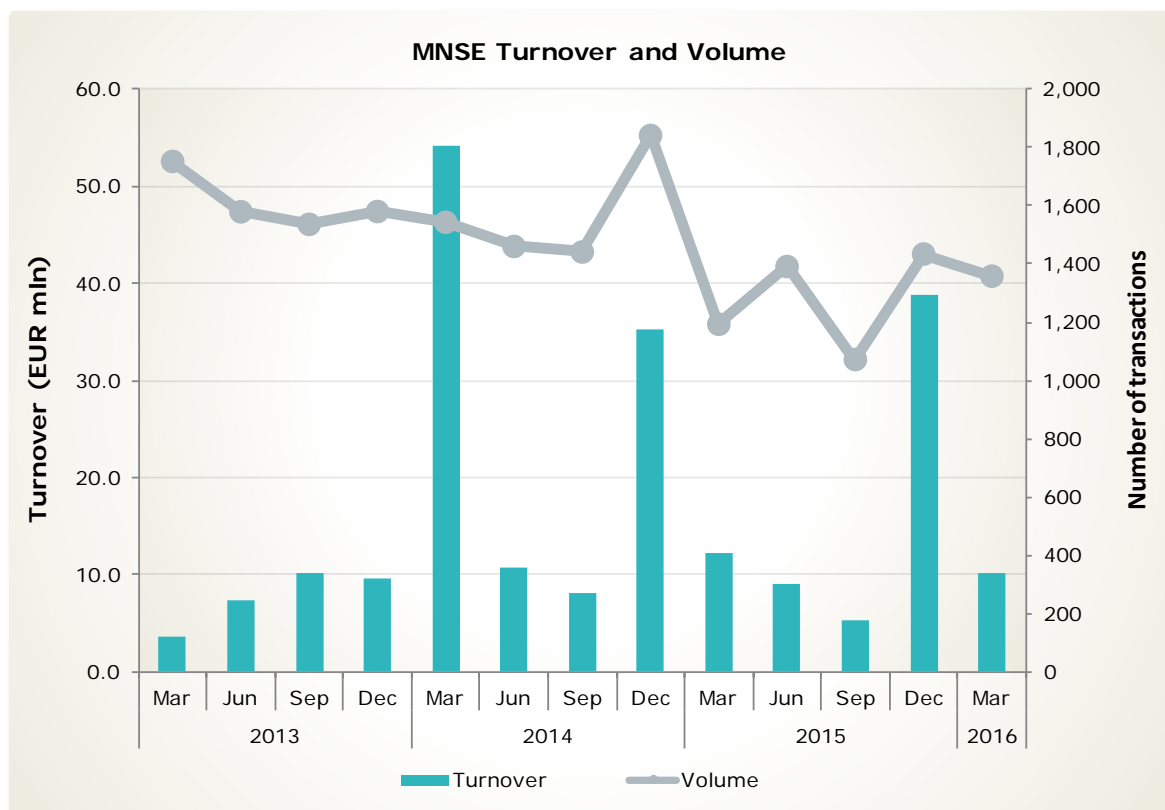
### Blue-chip MNSE10\* averaged 1,019 points in Q1 2016

\*MNSE10 has replaced the former blue-chip index MONEX20.

In Q1 2016, the value of MNSE10, the blue-chip index of the Montenegro Stock Exchange (MNSE), averaged 1,019 points, compared to a base value of 1,000 points.

MNSE's market capitalization went down by 6.2% y/y to EUR 2.841 bln at end-March 2016.

The total turnover on the bourse narrowed to EUR 10.102 mln in Q1 2016 from EUR 12.201 mln a year earlier.



Source: MNSE

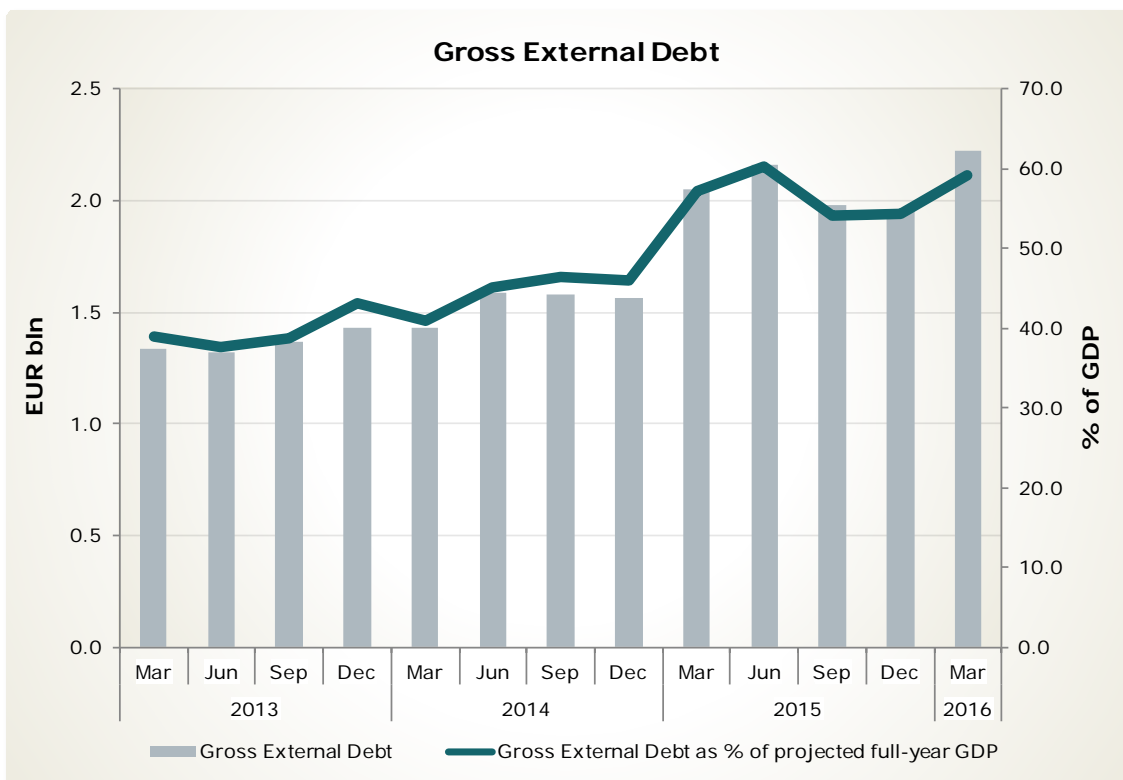
## 7. EXTERNAL SECTOR

### 7.1. FOREIGN DEBT

*The gross external debt grew annually to EUR 2.224 bln at end-March 2015*

The gross external debt increased to EUR 2.224 bln at the end of March 2015, up by 8.6% or EUR 175.6 mln, compared to a year earlier, according to CBCG. The gross external debt accounted for 59.1% of the projected full-year GDP.

The largest share, 56.2%, in the total gross external debt had Eurobonds, followed by debts to the International Bank for Reconstruction and Development (IBRD), which made up 10.0% of the total and China's Exim Bank, and Credit Suisse Bank, each had a 7.5% share in the total debt.



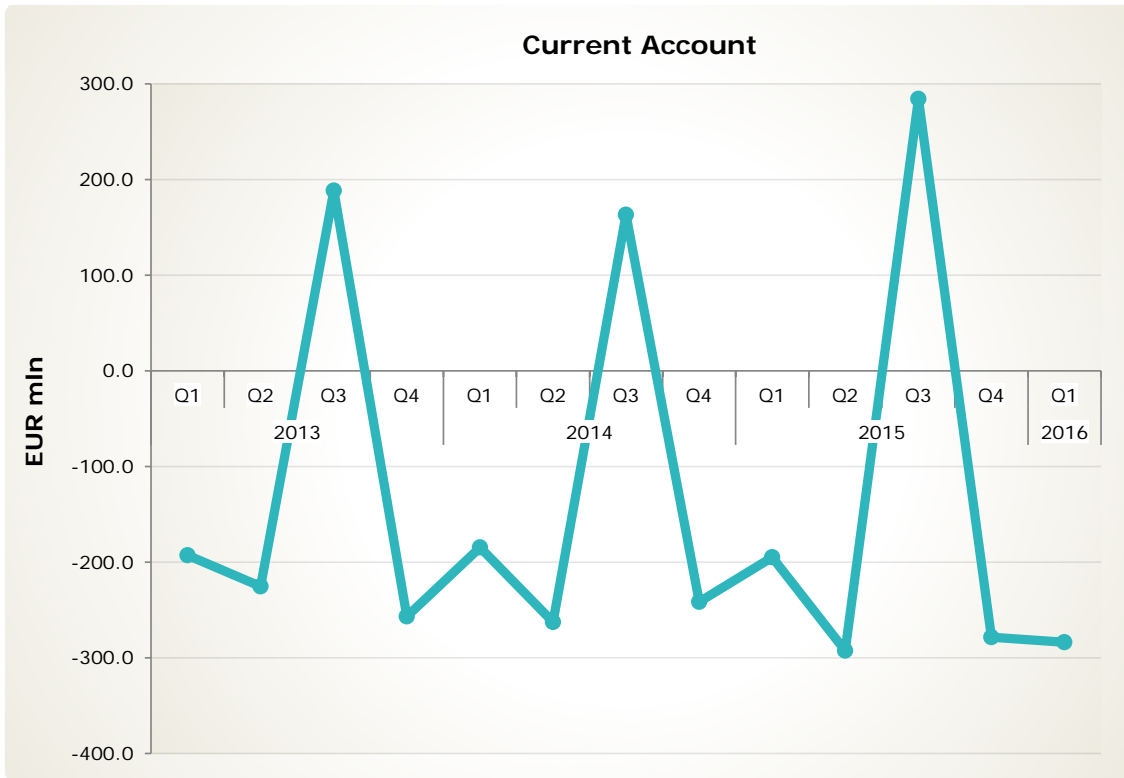
Source: CBCG

### 7.2. BALANCE OF PAYMENTS

*Current account deficit at EUR 283.9 mln in Q1 2016*

The current account deficit grew to EUR 283.9 mln in Q1 2016 from EUR 195.1 mln in Q1 2015, according to central bank statistics data.

Secondary income went up to EUR 24.987 mln from EUR 21.245 mln, while primary income shrank to EUR 7.061 mln from EUR 41.546 mln.



Source: CBCG

### 7.3. FDI

#### FDI inflow jumped 84.8% y/y in Jan-Apr 2016

*\*Data for Jan-Mar 2016 is not available*

FDI went up by 84.8% annually, to EUR 249.1 mln, in the period January – March 2016, according to CBCG data.

In the period under review, Norway was the biggest foreign investor in Montenegro with direct investments of EUR 85.063 mln, Italy came second with EUR 32.886 mln and Hungary came third with EUR 24.821 mln.

Inflow in the form of investments in companies and banks and real estate amounted to EUR 78.746 mln and EUR 31.374 mln, respectively. Intercompany debt FDI inflow stood at EUR 41.752 mln and other FDI made up the remaining EUR 97.227 mln.

## 7.4. FOREIGN TRADE

### Foreign trade deficit grew by 11.5% y/y in Q1 2016

The trade deficit stood at EUR 315.7 mln in Q1 2016, compared to EUR 282.6 mln in Q1 2015, according to CBCG.

Montenegro's most exported goods in Q1 2016 were non-ferrous metals – EUR 13.153 mln, followed by electricity – EUR 7.133 mln, and iron and steel – EUR 4.563 mln.

In term of imports, the leaders were road vehicles – EUR 23.234 mln, petroleum, petroleum products and related materials – EUR 21.991 mln, and meat and meat preparations – EUR 17.907 mln.

The country's main export markets in Q1 2016 were Serbia, accounting for 27.6% of the total exports, followed by Hungary with a 13.8% share and exports to Germany made up 6.7% of the total.

Serbia, and Germany were also Montenegro's main trading partners in terms of imports with shares in the total imports of 22.8% and 8.3%, respectively. Imports to Italy had the third largest share, of 7.7%.



Source: MONSTAT

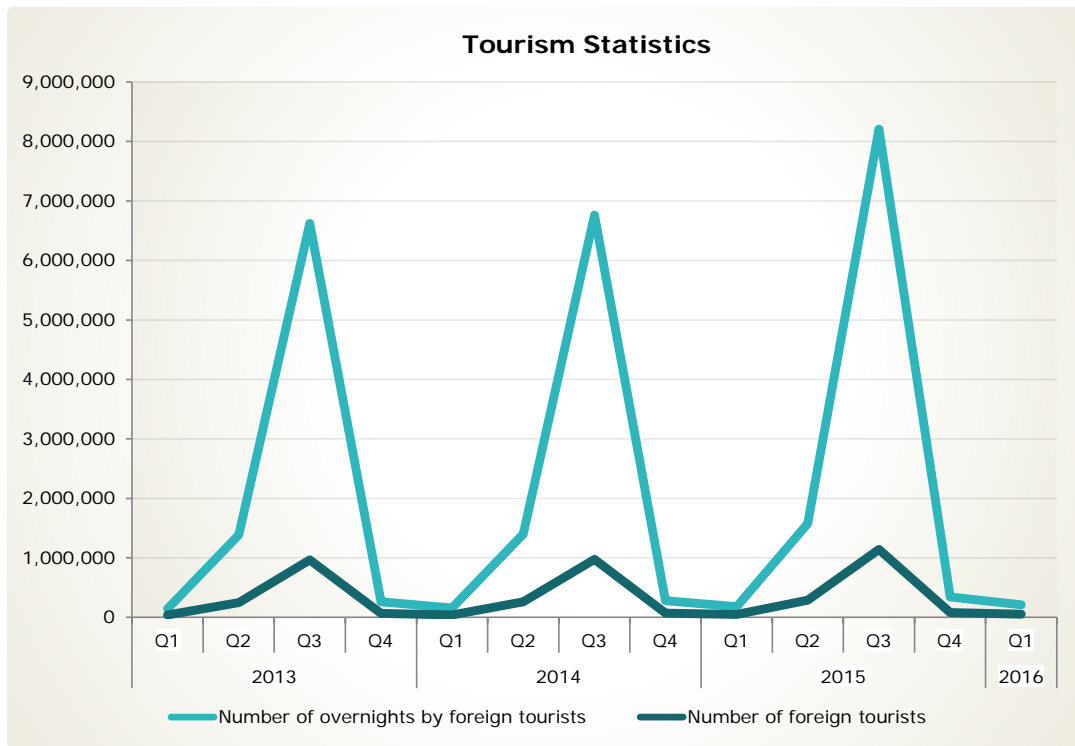


## 7.5. TOURSIM

### Number of foreign tourist overnights grew by 15.2% y/y in Q1 2016

Tourist overnights of foreigners jumped by an annual 15.2% to 209,911 in Q1 2016, according to MONSTAT.

The number of foreign tourists also went up - by 9.9% y/y to 54,292. Albanian tourists led the ranking in terms of numbers, accounting for 18.5% of the total number of tourists visiting Montenegro, followed by Serbians with an 18.0% share, and tourists from Russia had a 10.5% share.



Source: MONSTAT

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