

MONTENEGRO ECONOMY REPORT Q1 2018

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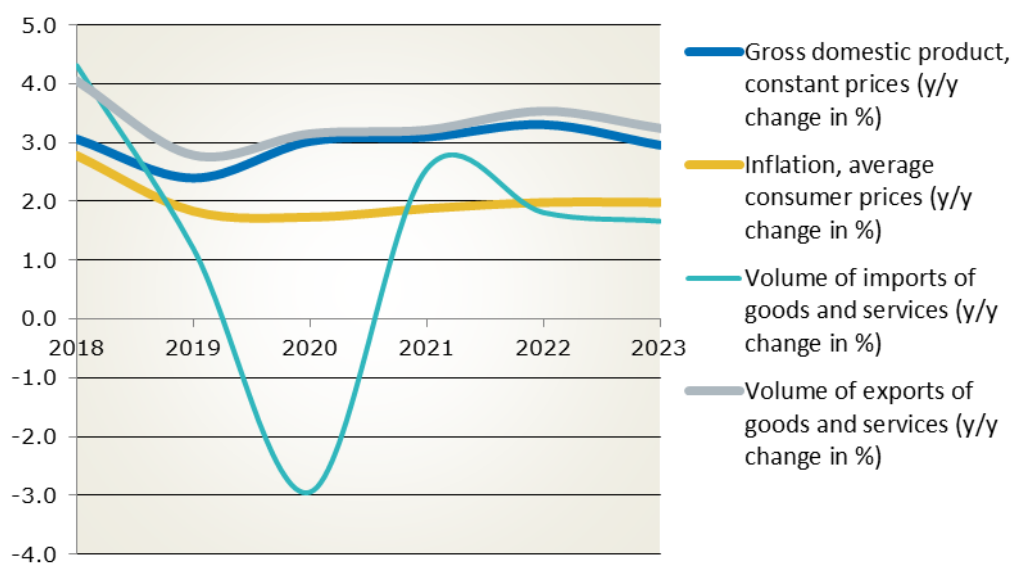
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1. MACROECONOMIC SNAPSHOT AND FORECAST

MONTENEGRO – MACROECONOMIC SNAPSHOT AS OF Q1 2018	
GDP Growth	4.5% y/y
Industrial output	39% y/y
Industrial sales	24.5% y/y
Retail sales	3.2% y/y
Annual inflation	2.9%
Unemployment rate	16.1%
Number of building permits	6.8% y/y*
Household loans	10.1% y/y
MNSE10 blue-chip index	-1.2% q/q
Gross External Debt	EUR 2.214 bln*
Current account deficit	EUR 304.5 mln
FDI inflow	EUR 50.8 mln
Foreign trade deficit	EUR 408 mln
Number of foreign tourist overnights	8.9% y/y*

* data for Q4 2017

Montenegro Economy Forecast



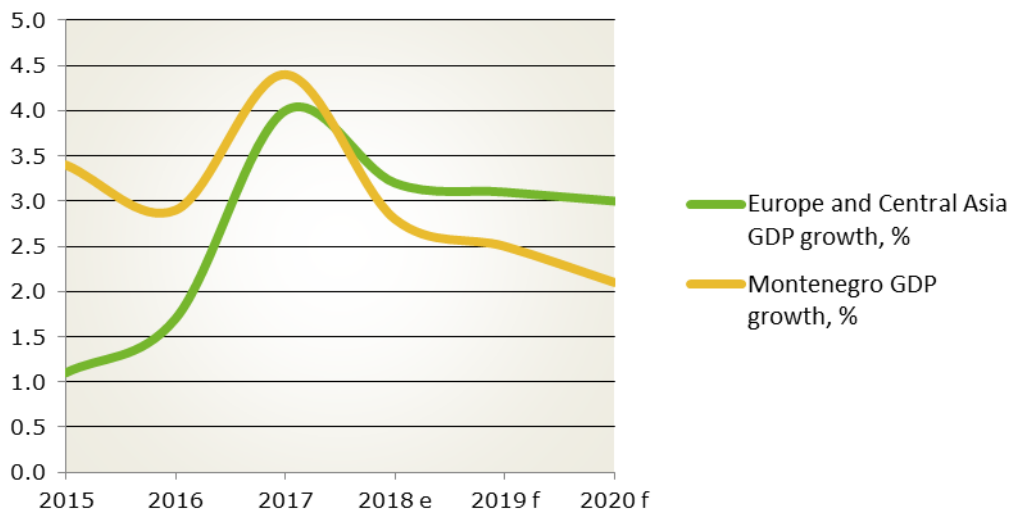
Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2018

IMF expects the economy of Montenegro to expand by 2.4% in 2019, down from 3.1% in 2018 and 4.2% y/y growth in 2017. GDP growth will moderate as highway construction ends and the fiscal budget consolidates. Over the medium term between 2020 and 2023 IMF forecasts GDP expansion of about 3.0% per year on average.

According to IMF, while the implementation of large publicly financed infrastructure projects has added to economic growth, the accompanying use of fiscal resources has contributed to a large increase in government debt, which reached 75% of GDP in 2017. Large refinancing needs over 2019-21 have also been a source of fiscal vulnerability.

The lack of an independent currency and limited fiscal space constrain Montenegro's ability to absorb shocks, which underscores the need for an improvement in economic flexibility to sustain growth over the long run, IMF warns.

Montenegro Economy vs Europe and Central Asia



Source: World Bank, Europe and Central Asia Economic Update, January 2018

According to the World Bank estimates from June 2018, GDP growth is likely to come in at 2.8% in 2018, down from 4.4% in 2017. This will be lower than the projected growth for Europe and Central Asia, of 3.2% in 2018.

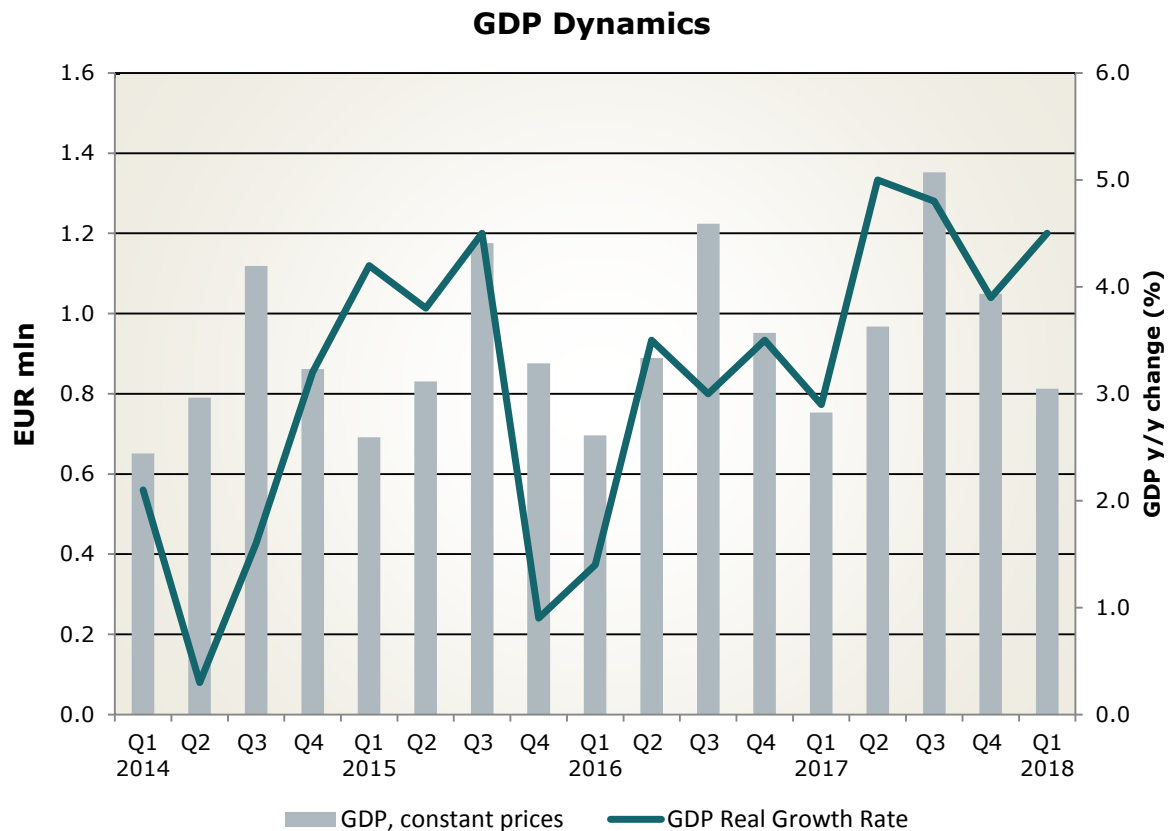
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth continues to be strong at 4.5% y/y in Q1 2018

The economy of Montenegro continues to grow at strong rates during the first quarter of 2018. The country's real GDP annual growth was 3.9% in Q4 2017 and 2.9% y/y growth in Q1 2017, according to the Statistical Office of Montenegro (MONSTAT).

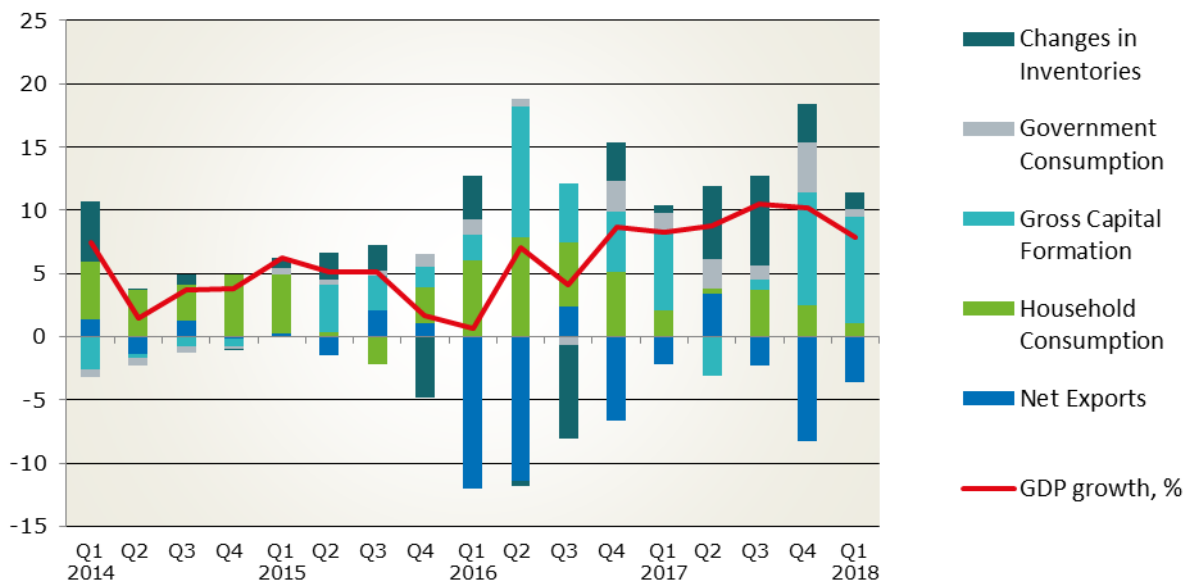
Montenegro's economy is growing strongly, boosted by the implementation of large investment projects, including the construction of the Bar-Boljare highway. The GDP totalled EUR 813 mln in constant prices in Q1 2018, compared to EUR 754 mln in the same quarter of the previous year.



Source: MONSTAT

Final consumption increased in value terms by 1.5% on the year to EUR 863 bln in Q1 2018. Gross capital formation went up by 33% to EUR 263 bln. Exports grew by 22% on the year, and imports by 13% compared to Q1 2017.

**Contributions to GDP Growth
pp, non-seasonally adjusted data, y/y**



Source: MONSTAT

2.2. INDUSTRIAL OUTPUT

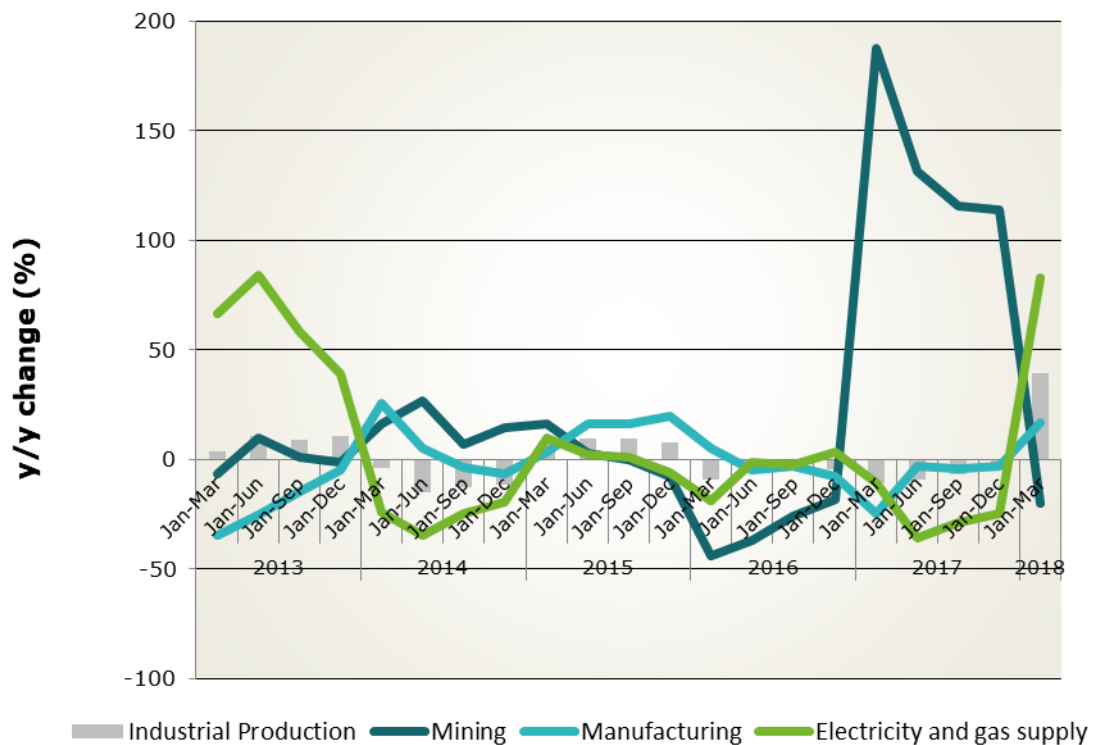
Industrial output surged by 39% y/y Q1 2018

Industrial output jumped by 39% on the year in Q1 2018, according to MONSTAT.

The overall fall surge caused by the electricity and gas supply industry, which expanded by 82.6% on an annual basis, and the production at manufacturing industry went up by 17% y/y.

In the same time the mining sector shrank by about a fifth y/y in the first three months of 2017.

Industrial Production



Source: MONSTAT

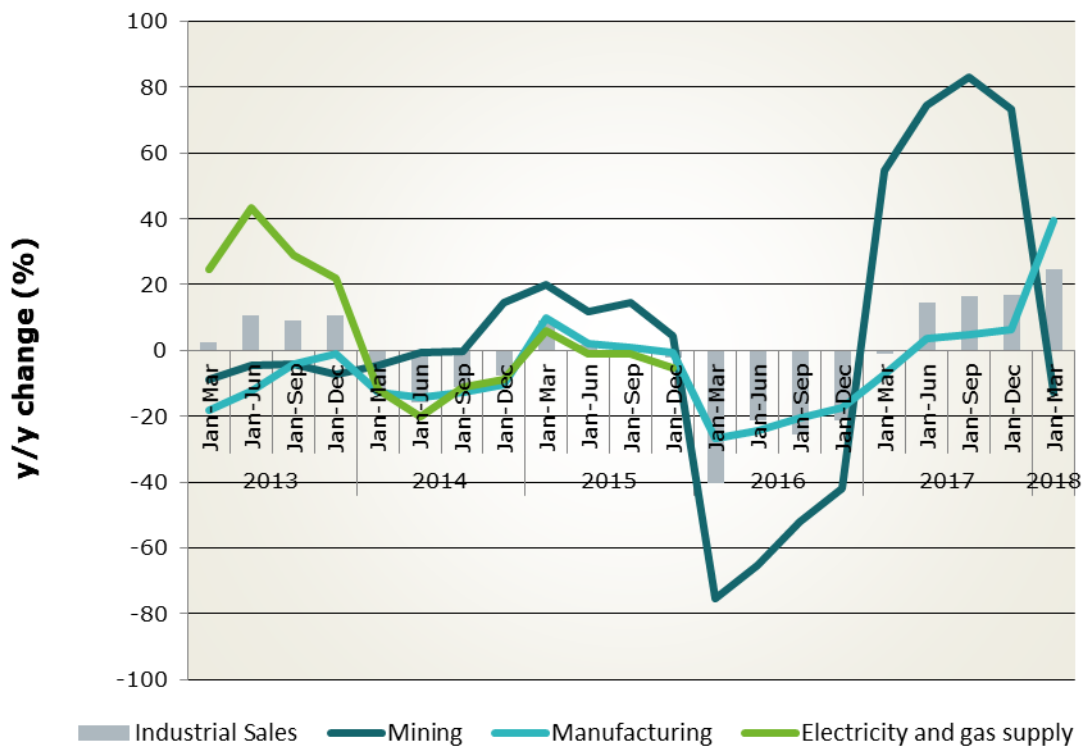
2.3. INDUSTRIAL SALES

Industrial sales increased by 24.5% y/y in Q1 2018

Industrial sales went up by 24.5% in Q1 2018, according to MONSTAT.

The uptrend in the period under consideration was mainly due to the 39.6% y/y increase in the sales of the manufacturing industry. Sales of the mining and quarrying sector decreased by 12.7% y/y.

Industrial Sales



Source: MONSTAT

Editor's note: Data for electricity and gas supply sales was not available after 2015.

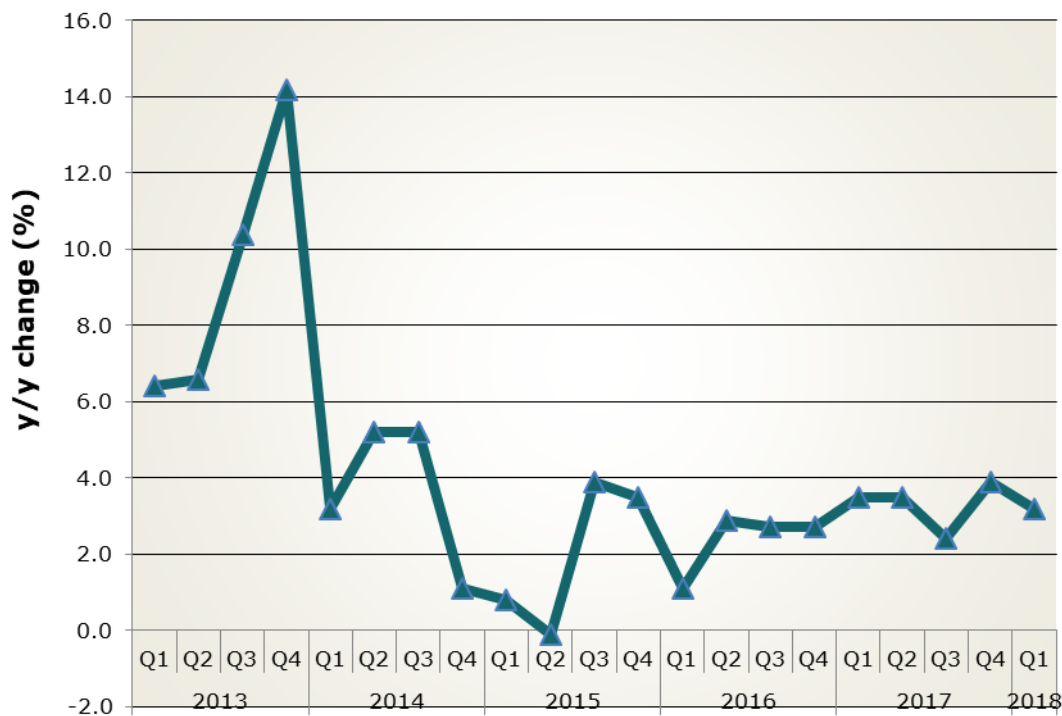
2.4. WHOLESALE/RETAIL

Retail sales grew 3.2% y/y in Q1 2018

Retail sales went up by 3.2% in constant prices in Q1 2018, compared to the same period of the previous year, according to MONSTAT data. Growth in retail sector was fueled by the strong economic growth, the tightening labor market and wage pressure.

The largest increase in relation to the same period of the previous year was achieved in the retail sale of food, which advanced by 5.1% in March 2018. The largest share in the total retail trade turnover in Montenegro took retail trade without retail trade of motor fuels, which in March 2018 amounted to 93.1% of the total turnover.

Retail Sales Annual Change constant prices



Source: MONSTAT

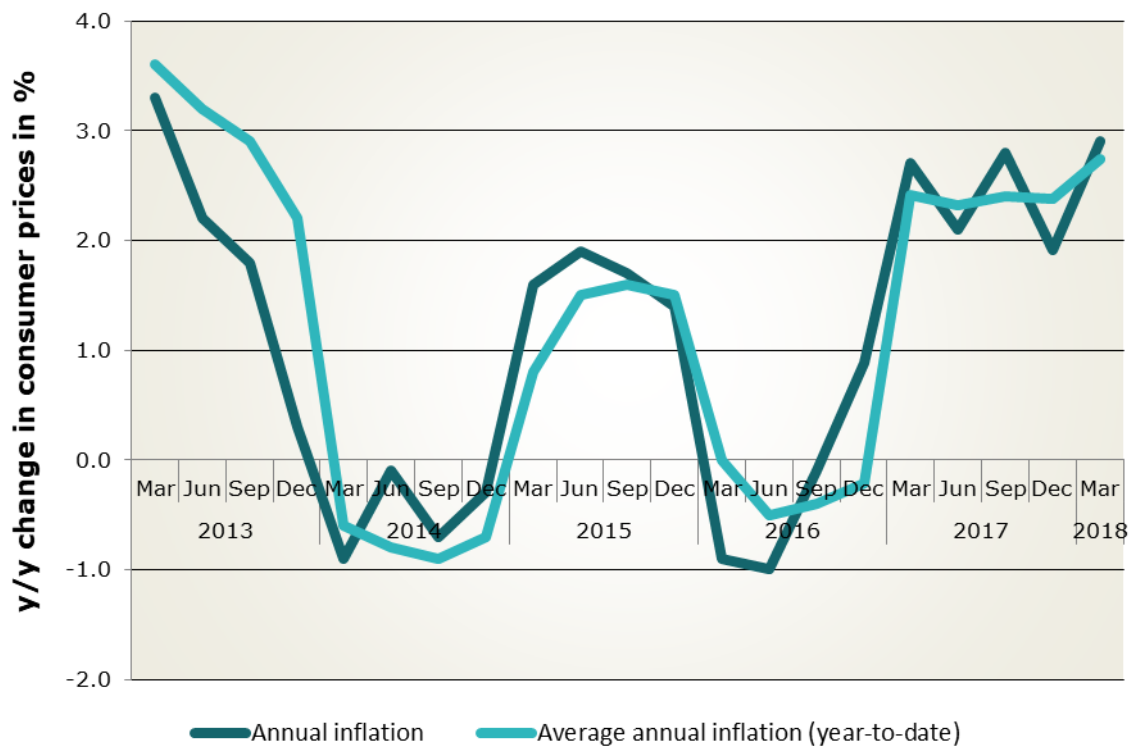
2.5. INFLATION

Average inflation of 2.75% y/y in Q1 2018

Montenegro registered an average annual inflation of 2.75% in Q1 2018, according to MONSTAT data.

Segment wise, the highest annual increase in consumer prices, of 30.7%, was registered in alcoholic beverages and tobacco, while the group of clothing and footwear saw inflation of 7.2% in Q1 2018 compared to Q1 2017. CPI of the group of food and non-alcoholic beverages went down by 0.7% y/y, while the CPI of the group of furnishing, household equipment and routine household maintenance advanced by 0.7% y/y.

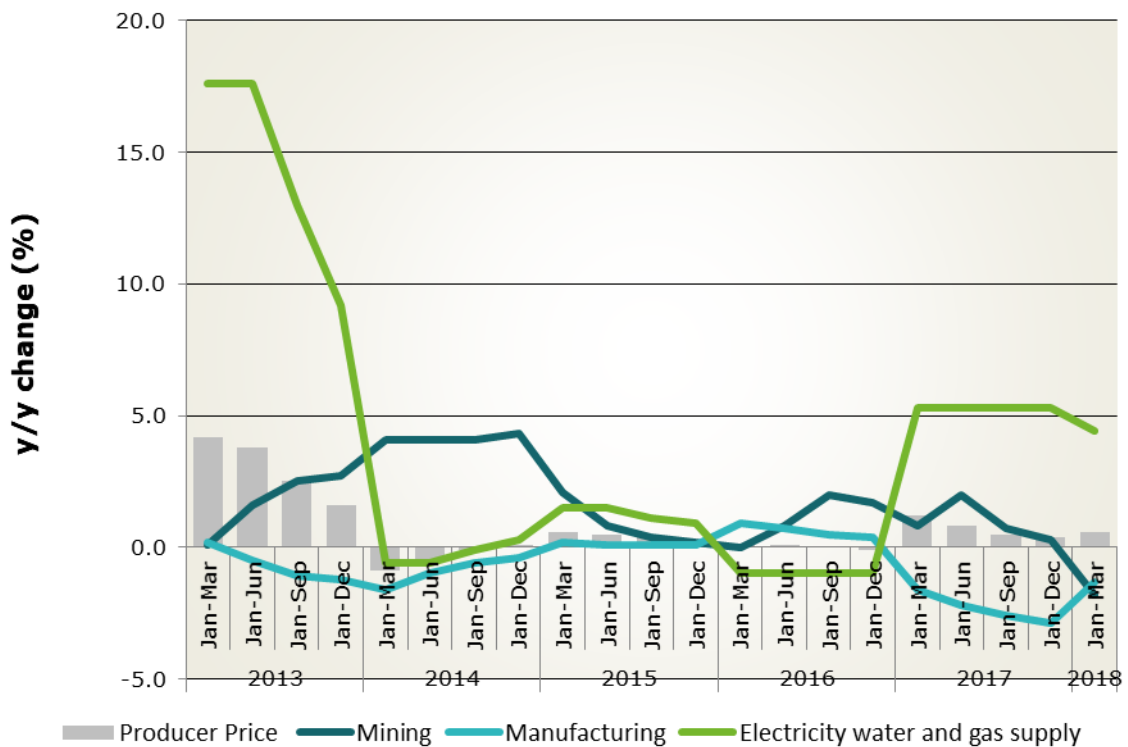
Annual Inflation Rate



Source: MONSTAT

Producer prices inched up by 0.6% in Q1 2018, compared to the same period of the previous year. The electricity, gas and water supply sector registered an annual increase in producer prices of 4.4%, while producer prices in the manufacturing sector decreased by 1.3%. The mining sector had PPI decrease of 1.8% y/y in Q1 2018.

Producer Prices Annual Change



Source: MONSTAT

3. LABOUR MARKET

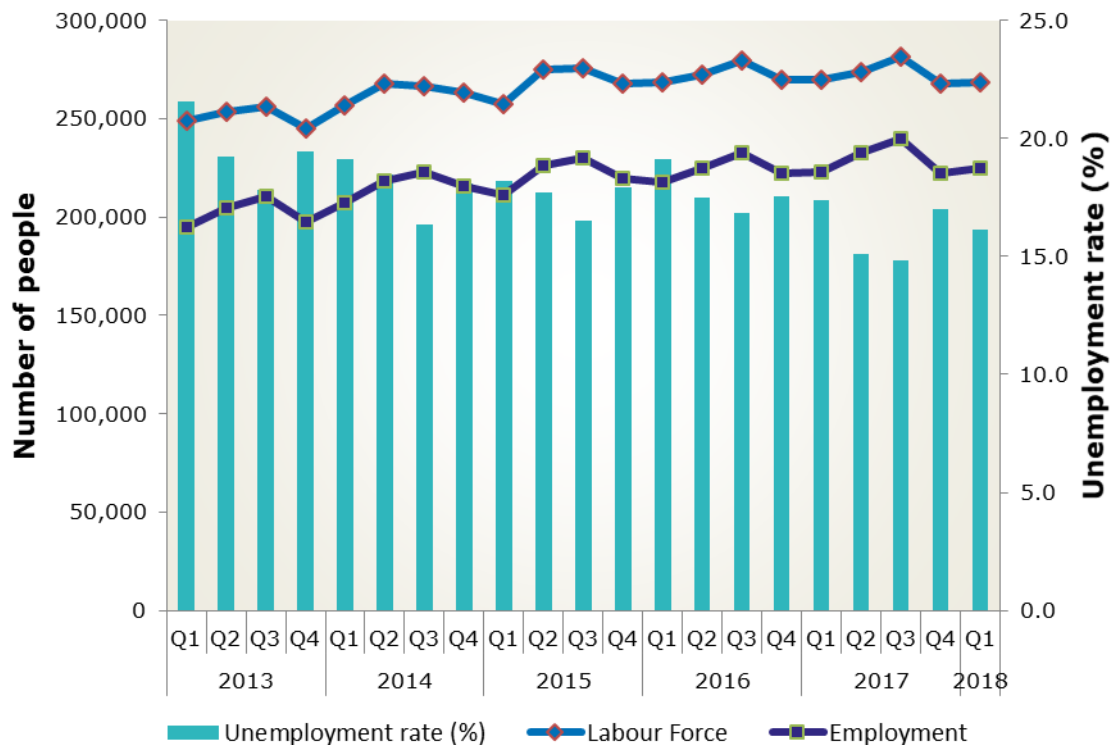
Unemployment rate at 16.1%, wages unchanged y/y in Q1 2018

Unemployment in Montenegro fell to 16.1% of the total labour force in Q1 2018, down from 17% in Q4 2017 and 17.4% in Q1 2017, according to data of MONSTAT.

The employed population aged 15 years and older was 225,000 people in Q1 2018, up by 1.0% compared to the 222,700 a year earlier.

The youth (population aged 15-24) unemployment rate went down to 32.2% y/y, down from 36.7% in Q4 2017.

Labour Force, Employment and Unemployment Rate



Source: MONSTAT

According to MONSTAT, the average monthly net salary in Q1 2018 was unchanged y/y at EUR 510.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits down by 8% y/y in Q4 2017¹

The number of building permits issued in Montenegro in Q4 2017 decreased by 8% y/y and totaled 275, according to MONSTAT data.

The number of dwellings, covered by the permits nearly doubled to 1,282 and their total built-up area scaled up to 81,870 sq m, up from 47,474 sq m.

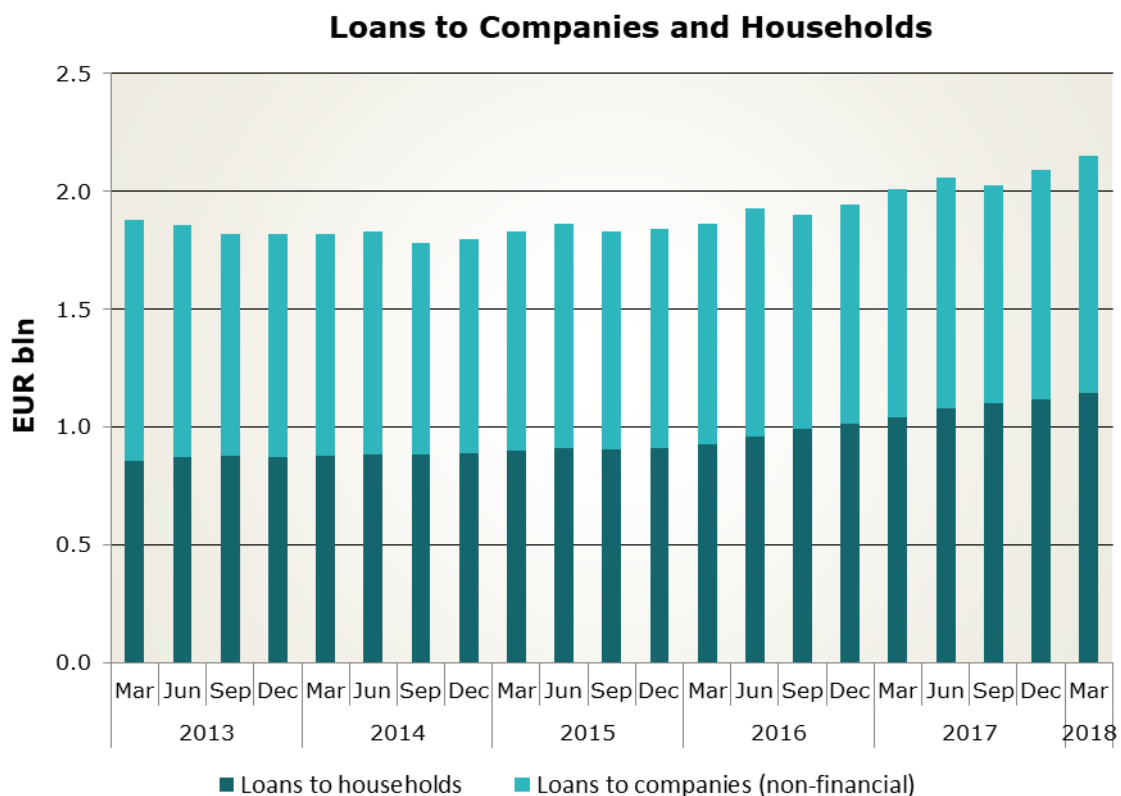
¹ Latest data available as of end-2017

5. BANKING AND INSURANCE

Household loans grew by 10.1% y/y at end-March 2018

Loans to the non-government and non-financial sector totalled EUR 2.153 bln as of March 2018, up from EUR 2.091 bln in March 2017, according to Central bank of Montenegro (CBCG).

Household loans grew by 10.1% to EUR 1.145 bln, accounting for 53% of the total loans to the non-government and non-financial sector, while corporate loans inched up by 4.1% to EUR 1.008 bln, slicing a 47% share.



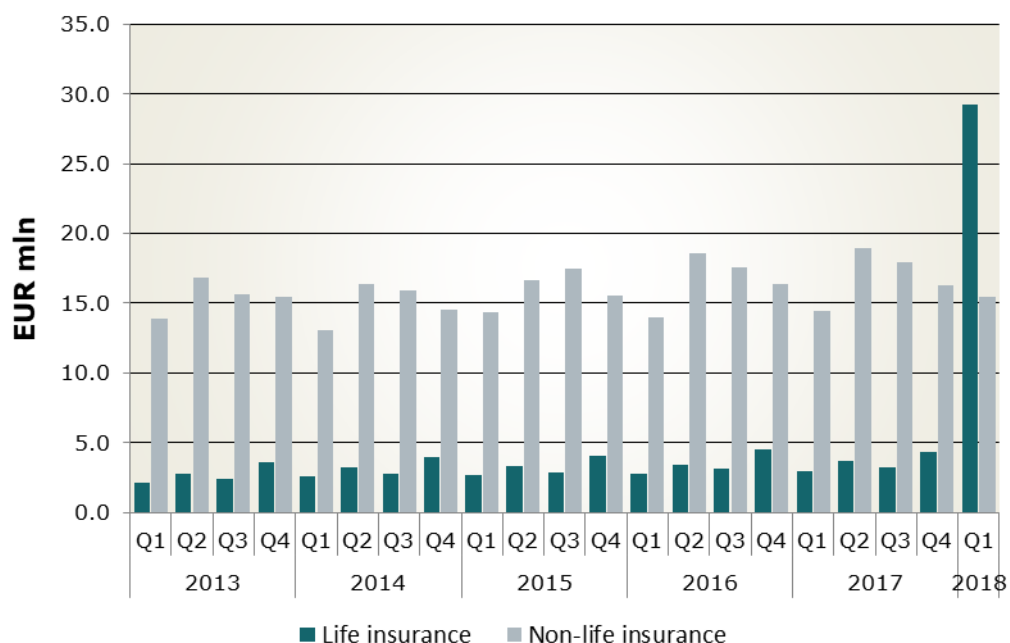
Source: CBCG

Insurance premiums surged by 5.6% in Q1 2018

The total gross written premiums of the Montenegrin non-life and life insurance companies stood at EUR 18.364 mln, up by 5.6% y/y, in Q1 2018, according to the country's Insurance Supervision Agency (ANO).

The premiums of the non-life insurance market stood at EUR 15.445 mln, or by 6.9% more than a year earlier, while the life insurance sector fell by 0.9% to EUR 2.9 mln

Gross Written Premiums in Non-life and Life Insurance



Source: ANO

6. CAPITAL MARKETS

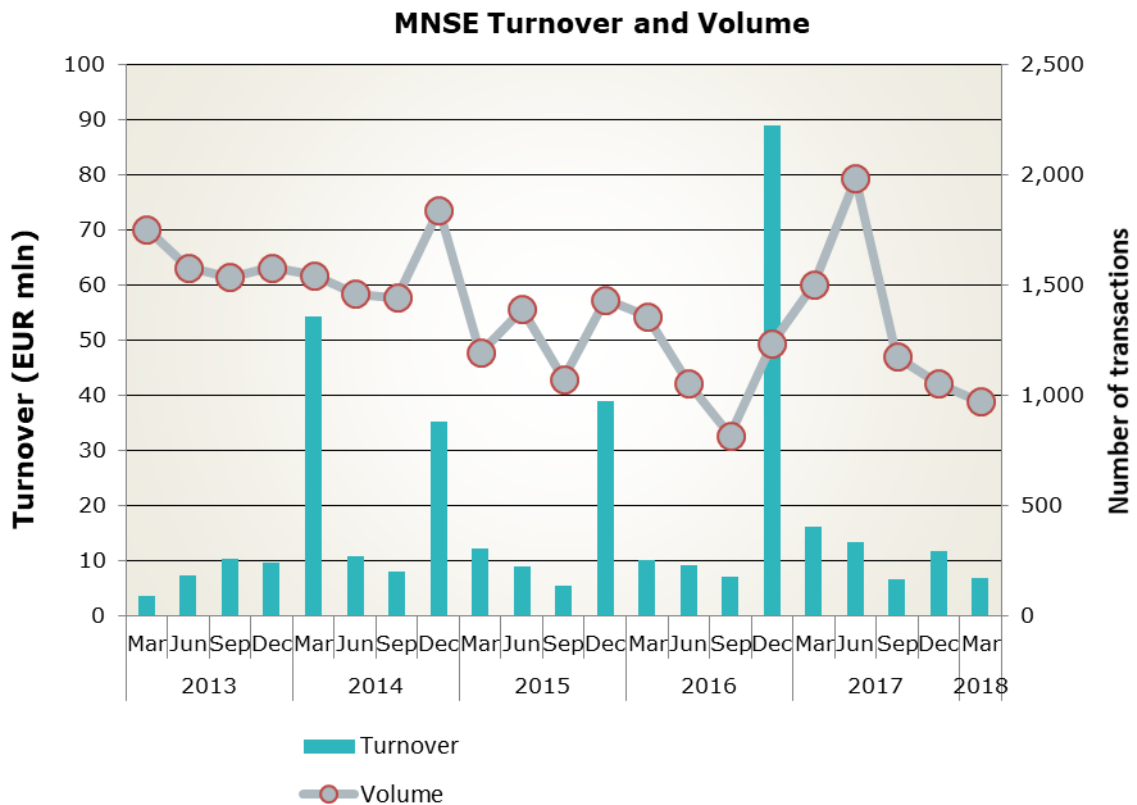
Blue-chip MNSE10* averaged 792 points in Q1 2018

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

In Q1 2018, the value of MNSE10, the blue-chip index of the Montenegro Stock Exchange (MNSE), averaged 792 points, down 17% y/y from 952 points in Q1 2017 and 1.2% lower compared to the previous quarter Q4 2017.

MNSE's market capitalization went up by 0.9% y/y to EUR 2.935 bln at end-March 2018.

The total turnover on the bourse fell to EUR 0.971 in Q1 2018 from EUR 1.5 mln a year earlier.



Source: MNSE

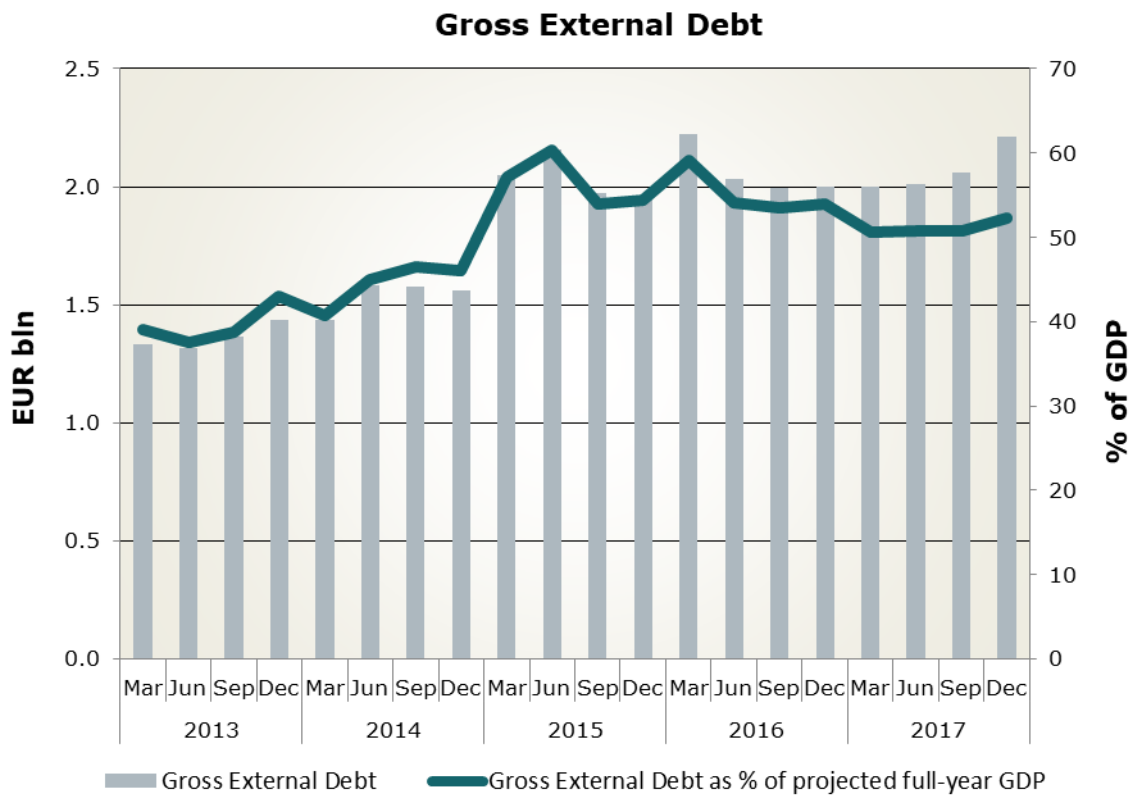
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt increased annually to EUR 2.214 bln at end-December 2017²

The gross external debt expanded to EUR 2.214 bln at the end of December 2017, up by 10.5% y/y, according to CBCG. The gross external debt accounted for 52.3% of the GDP in 2017.

² Latest data available as of end-2017



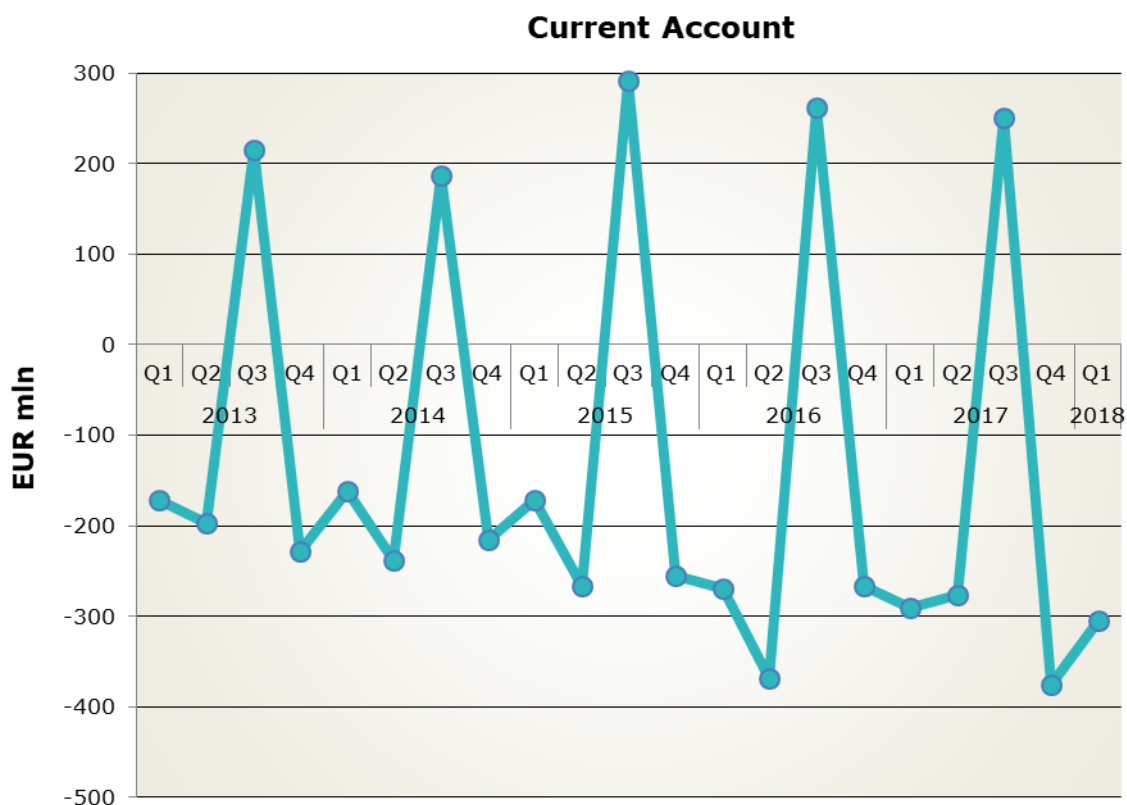
Source: CBCG

7.2. BALANCE OF PAYMENTS

Current account deficit at EUR 304.5 mln in Q1 2018

The current account deficit expanded to EUR 304.5 mln in Q1 2018, up from from EUR 290.3 mln in Q1 2017, according to central bank statistics data.

Secondary income expanded by 9.3% y/y to EUR 56.2 mln in Q1 2018.



Source: CBCG

7.3. FDI

Net FDI inflow shrank by 50% y/y in the first quarter of 2018

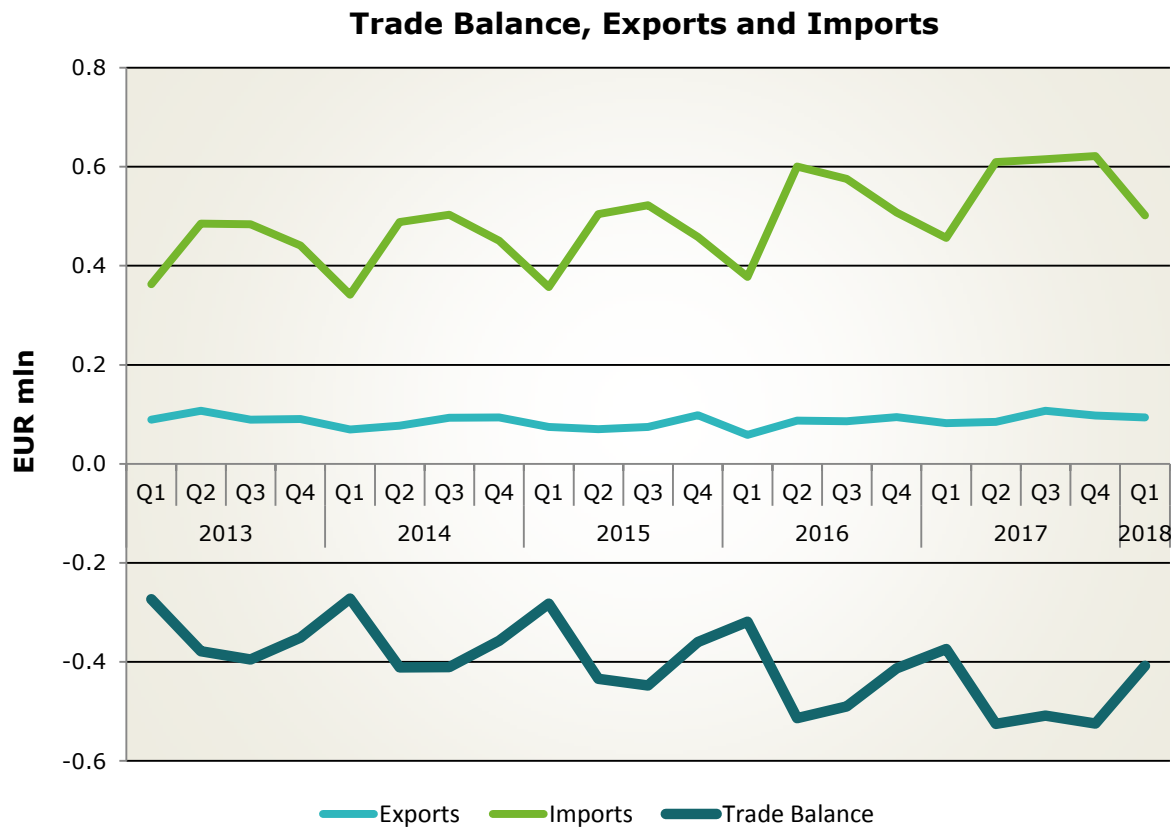
During the first quarter of 2018, net FDI in Montenegro amounted EUR 50.8 mln, according to CBCG data. This is a decrease from the net FDI inflow of EUR 101.9 mln in Q1 2017.

7.4. FOREIGN TRADE

Foreign trade deficit grew by 9% y/y in Q1 2018

The trade deficit stood at EUR 408 mln in the first quarter of 2018, up 3.8% y/y, according to CBCG.

Exports increased by 14.2% y/y to EUR 94 thou, while imports went up by 10% y/y to EUR 502 mln. The coverage of imports by exports was 18.7%, slightly higher compared to the coverage for the same period of previous year - 18%.



Source: MONSTAT

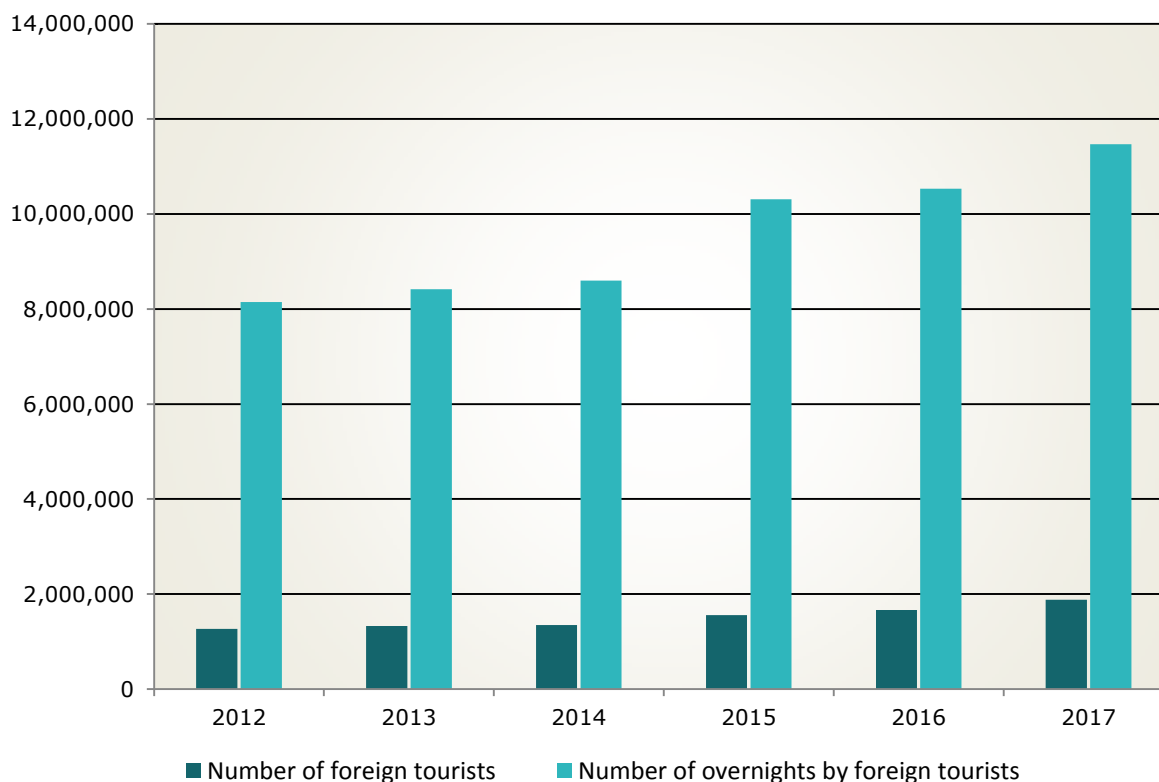
7.5. TOURISM

Number of foreign tourist overnights increased by 8.9% y/y in 2017³

Tourist overnights of foreigners rose by an annual 8.9% to 11,470,132 in the third quarter of 2017, according to MONSTAT. The number of foreign tourists grew even faster, at a rate of 12.9% y/y. The share of foreign visitors in total overnights in Montenegro remained very high, at 95.96%, traditionally for the 2017, when international seaside tourism dominates in the country.

³ Latest available data as of end-2017

Tourism Statistics



Source: MONSTAT

8. MAJOR DEVELOPMENTS

EBRD to support Montenegro's Tivat airport modernisation

Mar 27, 2018

The European Bank for Reconstruction and Development (EBRD) plans to support the project for the modernisation of Tivat international airport in Montenegro

[Read the full story here](#)

Kosovo parl ratifies border deal with Montenegro

Mar 23, 2018

Kosovo's parliament said in March it ratified the border demarcation deal with Montenegro - a key EU requirement for visa liberalisation - after the session was disrupted by opposition MPs releasing teargas in the chamber.

[Read the full story here](#)

Speed of Montenegro on way to EU depends on reform progress

Mar 1, 2018

The speed of Montenegro's EU accession negotiations depends on the effectiveness of judicial reforms, fight against corruption and media freedom, the president of the European Commission, Jean-Claude Juncker, has said.

[Read the full story here](#)

EBRD signs MoU with Montenegro to foster private sector development

Feb 27, 2018

The European Bank for Reconstruction and Development (EBRD) said in February it has signed a memorandum of understanding (MoU) with Montenegro to foster the development of the private sector, strengthen the investment climate and promote good governance in the country.

[Read the full story here](#)

Montenegro invites bids for climate change assessment services - EBRD

Feb 6, 2018

Montenegro's transport ministry has invited bids for climate change assessment services as part of a project for the reconstruction of roads, the European Bank for Reconstruction and Development (EBRD) said in February. The assignment, with an estimated cost of EUR 200,000, will be funded by the EBRD Shareholder Special Fund (SSF), the bank said in a procurement notice posted on its website.

[Read the full story here](#)

Albania, Montenegro join EU sanctions on Russia

Feb 2, 2018

European Union candidates Albania and Montenegro have aligned themselves with the EU's decision to renew the existing sanctions on Russia introduced over Moscow's involvement in the crisis in Ukraine, the Council of the EU said.

[Read the full story here](#)

World Bank lending EUR 30 mln agriculture loan to Montenegro

Feb 2, 2018

The World Bank said it has approved a EUR 30 mln loan for the Second Montenegro Institutional Development and Agriculture Strengthening Project (MIDAS 2).

[Read the full story here](#)

World Bank lending EUR 14 mln to back Montenegro's tax administration reform

Jan 20, 2018

The World Bank has signed an agreement to extend a EUR 14 mln euro loan to Montenegro to finance a tax administration reform project, the country's finance ministry said in January.

[Read the full story here](#)

Montenegro plans to invest EUR 60 mln in winter tourism infrastructure by 2020

Jan 16, 2018

Montenegro's prime minister Dusko Markovic said the government plans to invest EUR 60 mln by 2020 to improve the country's winter tourism infrastructure.

[Read the full story here](#)

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