

## **MONTENEGRO ECONOMY REPORT**

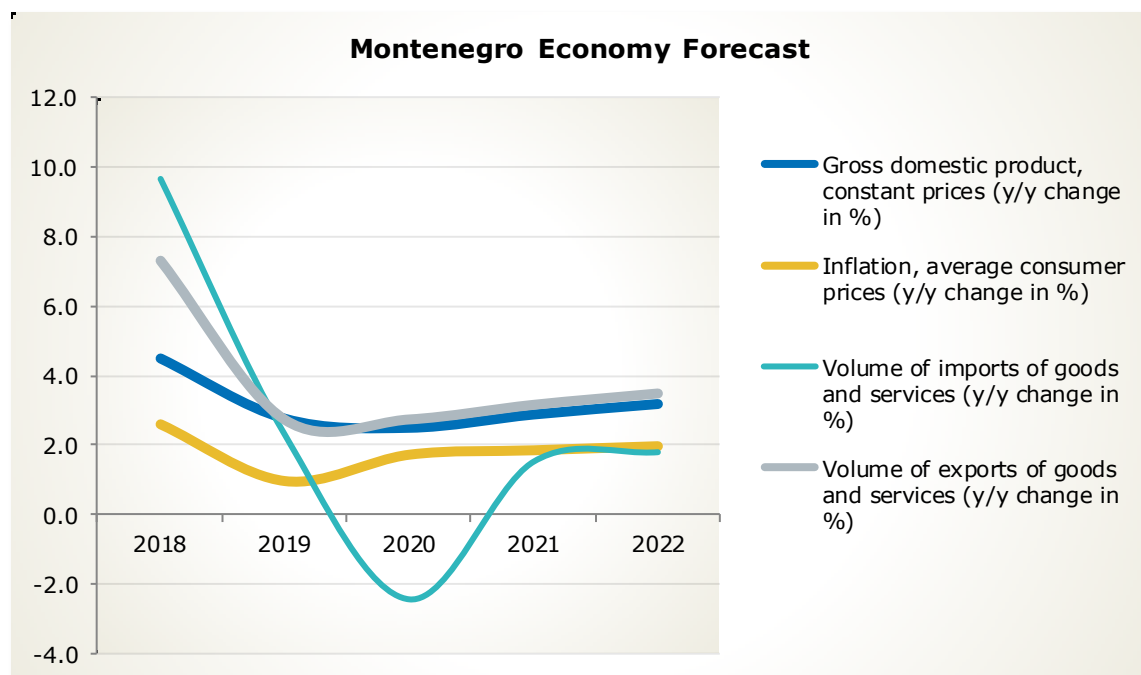
### Q1 2019

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

MONTENEGRO – MACROECONOMIC SNAPSHOT AS OF Q1 2019	
<b>GDP Growth</b>	3.0% y/y
<b>Industrial output</b>	-14.4% y/y
<b>Industrial sales</b>	-15.9% y/y
<b>Retail sales</b>	5.5% y/y
<b>Average annual inflation</b>	0.5%
<b>Unemployment rate</b>	15.0%
<b>Number of building permits</b>	-54.3% y/y
<b>Household loans</b>	12.4% y/y
<b>MNSE10 blue-chip index</b>	-1.1% q/q
<b>Gross External Debt</b>	EUR 2.801 bln
<b>Current account deficit</b>	EUR 317.6 mln
<b>FDI inflow</b>	EUR 82.7 mln
<b>Foreign trade deficit</b>	EUR 430.0 mln
<b>Number of foreign tourist overnights</b>	29.9% y/y

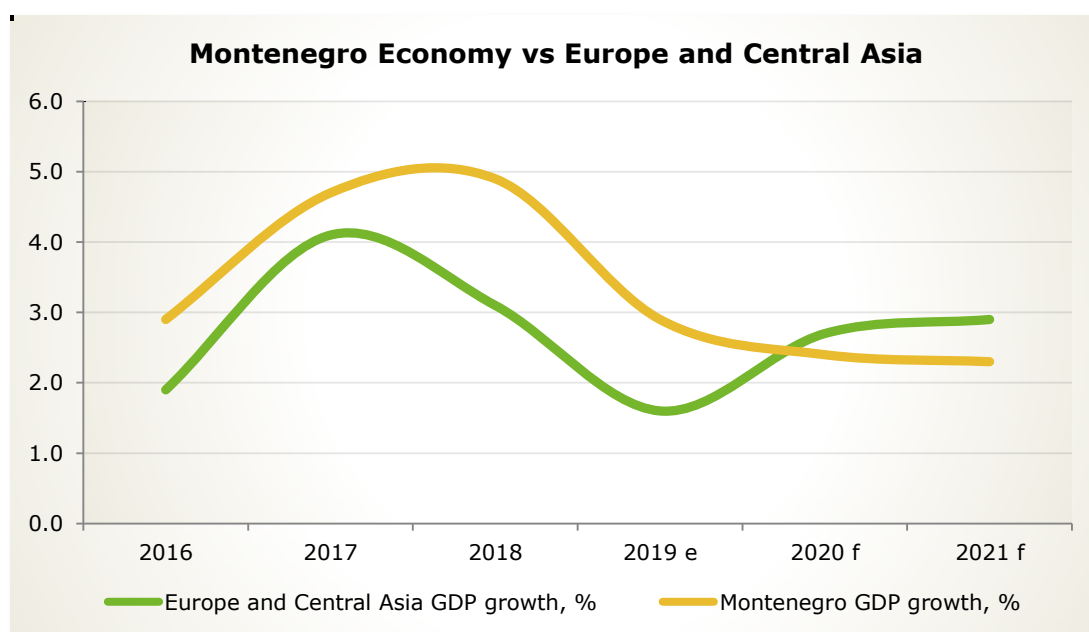


Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2019

IMF expects the economy of Montenegro to expand by 2.8% in 2019, down from 4.5% in 2018 and 4.0% y/y growth in 2017. GDP growth will moderate and over the medium term between 2020 and 2022 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 2019-2021 have also been a source of fiscal vulnerability.

According to the World Bank estimates, GDP growth is likely to come in at 2.9% in 2019, down from 4.9% in 2018. This will be higher than the projected growth for Europe and Central Asia, of 1.6% in 2019.



Source: World Bank, *Global Economic Prospects*, June 2019

Montenegro – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)							
	2016	2017	2018 e	2019 f	2020 f	2021 f	
Real GDP growth, at constant market prices, y/y change in %	2.9	4.7	4.4	2.9	2.4	2.3	
Private Consumption	5.4	3.9	3.0	2.1	2.4	2.0	
Government Consumption	0.8	-1.4	2.9	-1.2	-0.3	-0.3	
Gross Fixed Capital Investment	38.4	18.7	15.0	6.5	-2.8	-2.8	
Exports, Goods and Services	5.9	1.8	6.6	3.7	4.6	4.8	
Imports, Goods and Services	15.3	8.4	9.0	3.5	0.1	0.1	
Real GDP growth, at constant factor prices (by sectors)	2.9	4.7	4.4	2.9	2.4	2.3	
Agriculture	3.9	-3.1	0.0	0.1	0.5	1.0	
Industry	22.7	18.9	5.0	3.4	2.9	2.5	
Services	-22.9	-21.4	4.7	2.8	1.7	2.4	
Inflation (Consumer Price Index)	-0.3	2.4	2.6	2.0	1.9	1.9	
Current Account Balance (% of GDP)	-16.2	-16.1	-17.1	-17.1	-14.9	-11.4	
Net Foreign Direct Investment (% of GDP)	9.4	11.3	7.1	8.7	8.4	7.9	

Source: World Bank, *Europe and Central Asia Economic Update*, April 2019

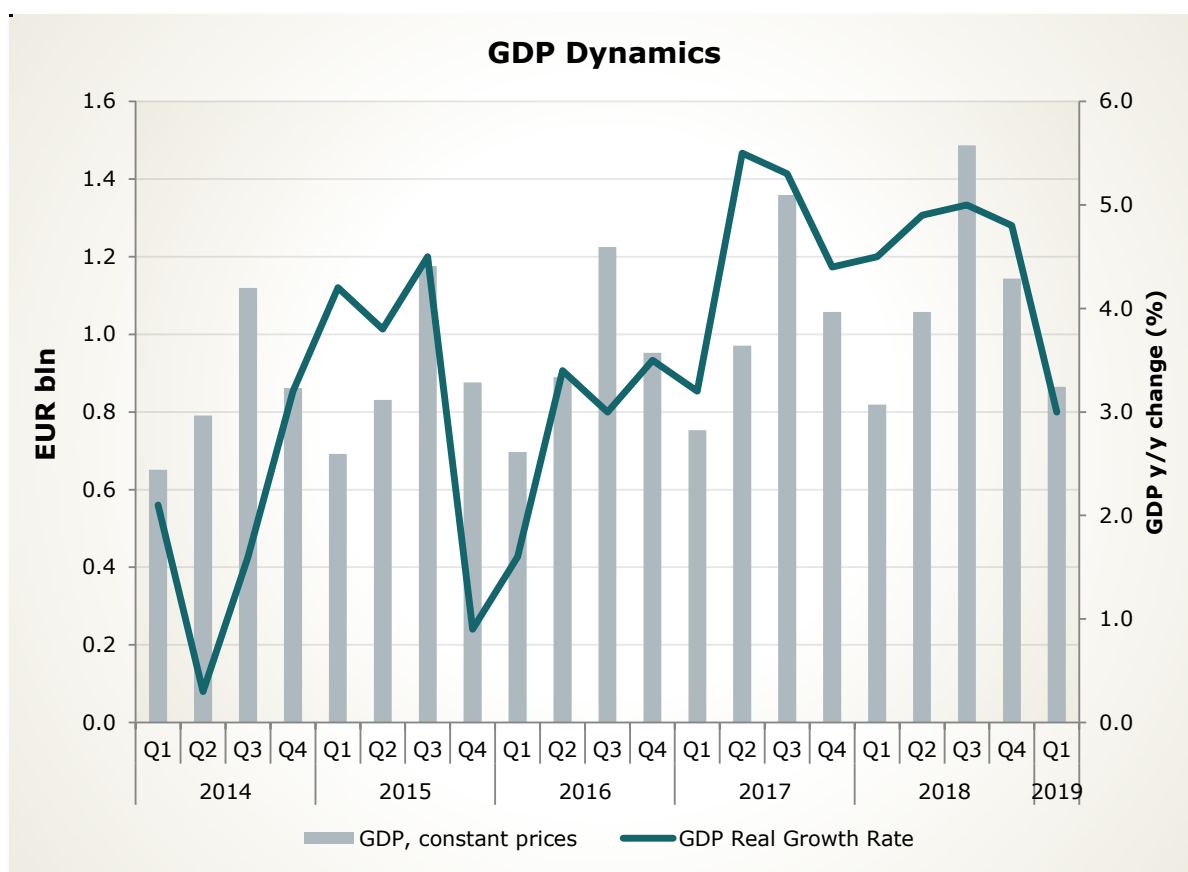
## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### *GDP growth slowed down to 3.0% y/y in Q1 2019*

The economy of Montenegro continued to grow during the first quarter of 2019, although at a slower pace. The country's real GDP annual growth was 3.0% in Q1 2019, down from the 4.8% y/y growth in Q4 2018, according to the Statistical Office of Montenegro (MONSTAT).

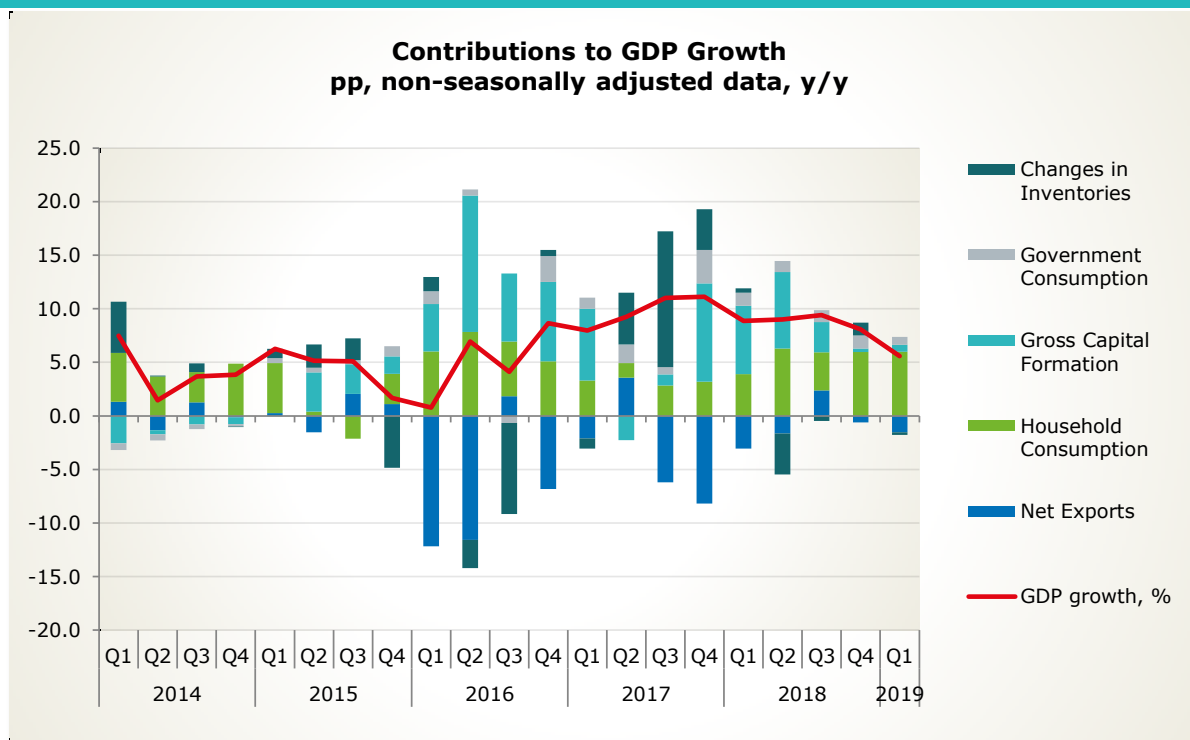
The GDP totaled EUR 865.1 mln in constant prices in Q1 2019, compared to EUR 819.3 mln in the same quarter of the previous year.



Source: MONSTAT

Editor's note: Annual data for GDP Real Growth Rate for 2018 was not available at the time of preparation of this report.

Final consumption increased in value terms by 6.2% on the year to EUR 949.6 mln in Q1 2019. Gross capital formation went up by 2.0% y/y to EUR 275.8 mln. Exports grew by 12.8% on the year, and imports - by 7.2%.



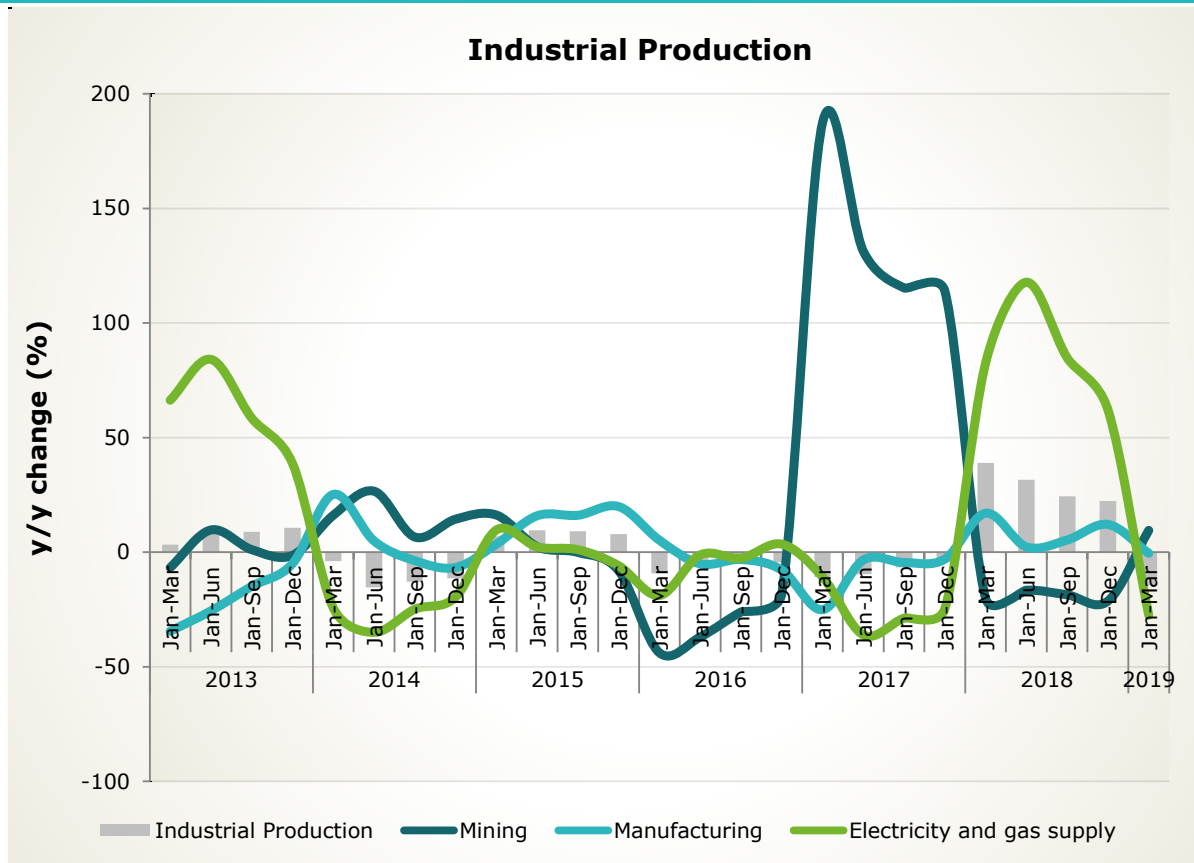
Source: MONSTAT

## 2.2. INDUSTRIAL OUTPUT

### Industrial output declined by 14.4% y/y in Q1 2019

Industrial output fell by 14.4% on the year in Q1 2019, according to MONSTAT.

The decrease was caused by the slump in output of the electricity and gas supply industry, which registered an annual drop of 27.5%, compared to an 82.6% y/y jump in Q1 2018. The production of the manufacturing industry went down by 0.5% y/y, while the output of the mining sector grew by 9.5% y/y.



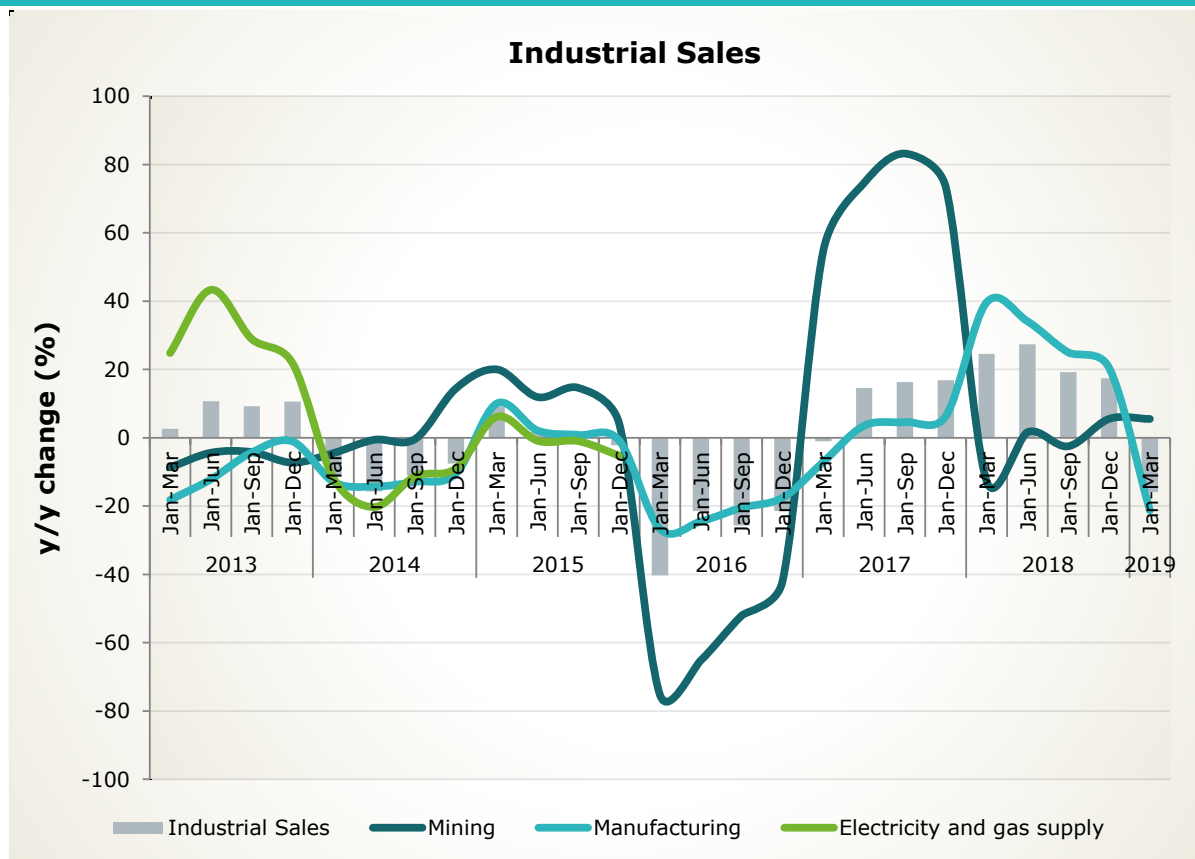
Source: MONSTAT

## 2.3. INDUSTRIAL SALES

### Industrial sales decreased by 15.9% y/y in Q1 2019

Industrial sales went down by 15.9% y/y in Q1 2019, according to MONSTAT.

The drop in the period under consideration was mainly due to the 21.3% y/y decrease in the sales of the manufacturing industry. Sales of the mining sector grew by 5.5% y/y.



Source: MONSTAT

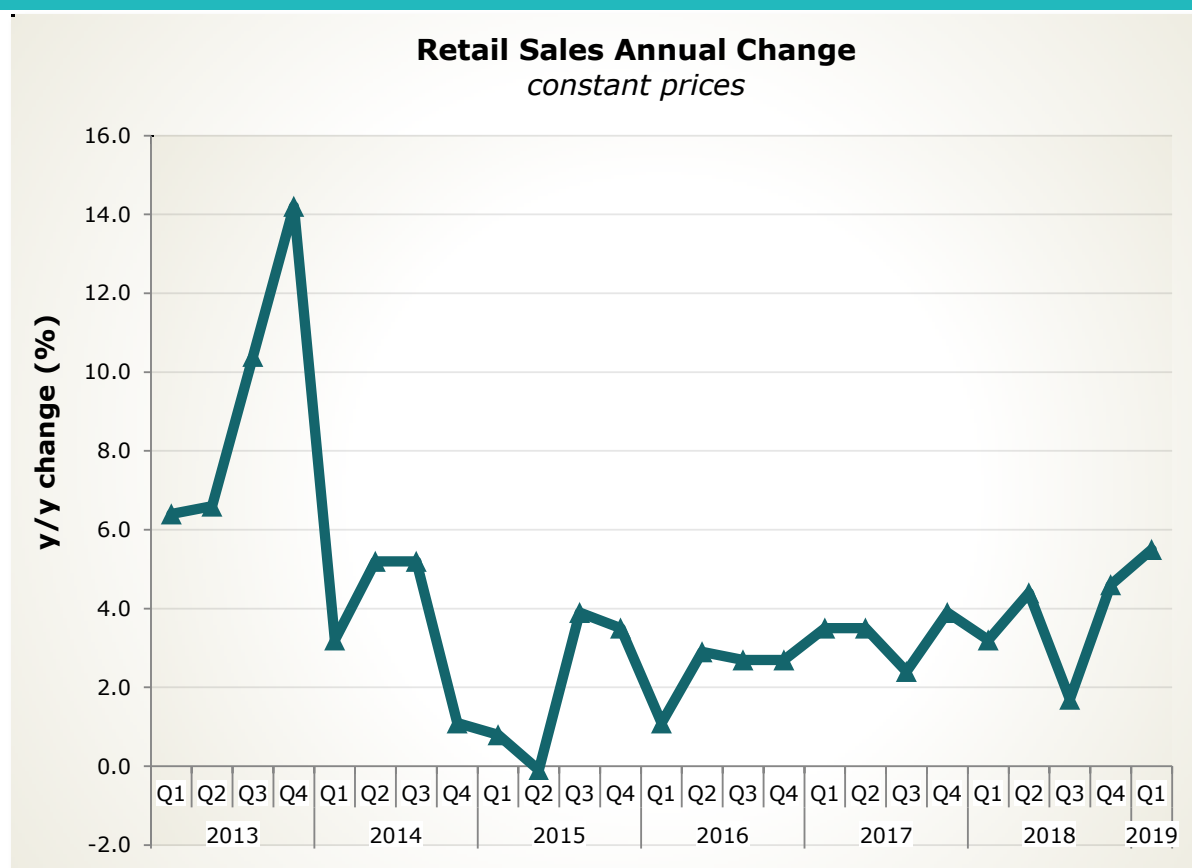
Editor's note: Data for electricity and gas supply sales was not available after 2015.

## 2.4. WHOLESALE/RETAIL

### Retail sales grew 5.5% y/y in Q1 2019

Retail sales went up by 5.5% y/y in constant prices in Q1 2019, compared to 3.2% y/y rise in the same quarter 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.





Source: MONSTAT

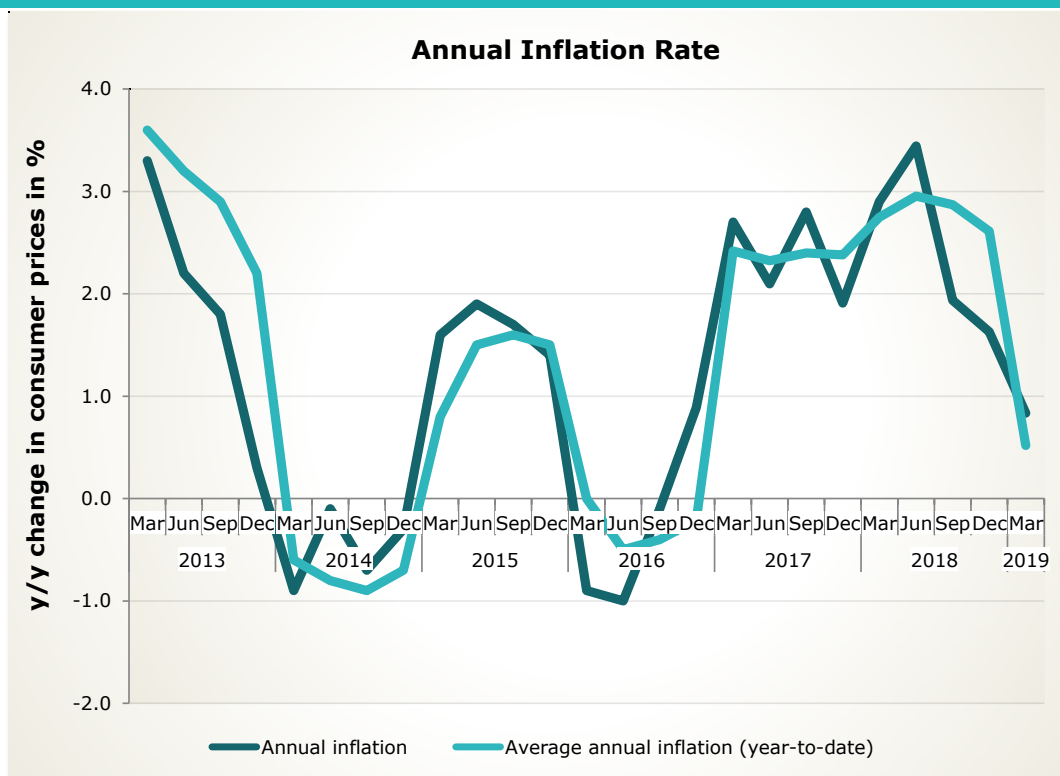
## 2.5. INFLATION

### Average annual inflation at 0.5% y/y in Q1 2019

Montenegro registered an average annual inflation of 0.5% in Q1 2019, according to MONSTAT data. This is a decrease compared to the inflation level of 2.7% in Q1 2018.

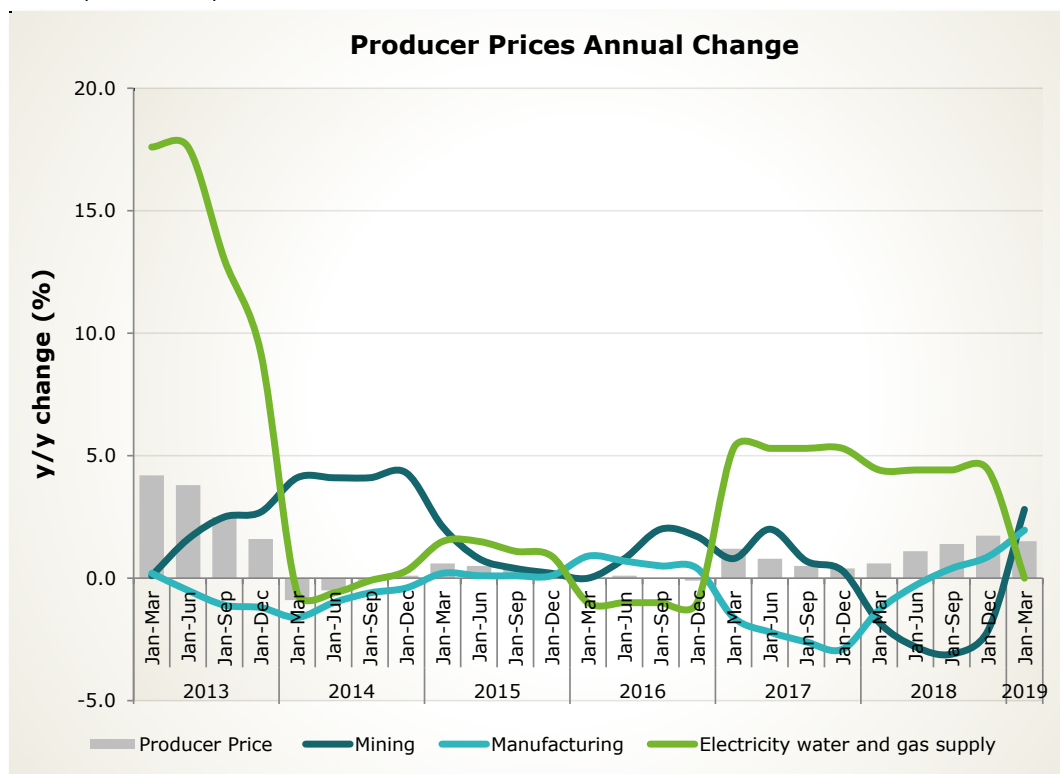
Segment wise, the lower inflation was influenced mostly by decrease in prices of alcoholic beverages and tobacco, clothing and footwear, health services, transport services, communications, recreation and culture.

Prices of food and non-alcoholic beverages and housing, water and electricity supply and fuels rose by more than 2.0%, while prices of the other product groups stayed largely unchanged.



Source: MONSTAT

Producer prices inched up by 1.5% y/y in Q1 2019. The electricity, gas and water supply sector stood unchanged, while producer prices in manufacturing increased by 2.0%. The mining sector saw producer prices increase with 2.8%.



Source: MONSTAT

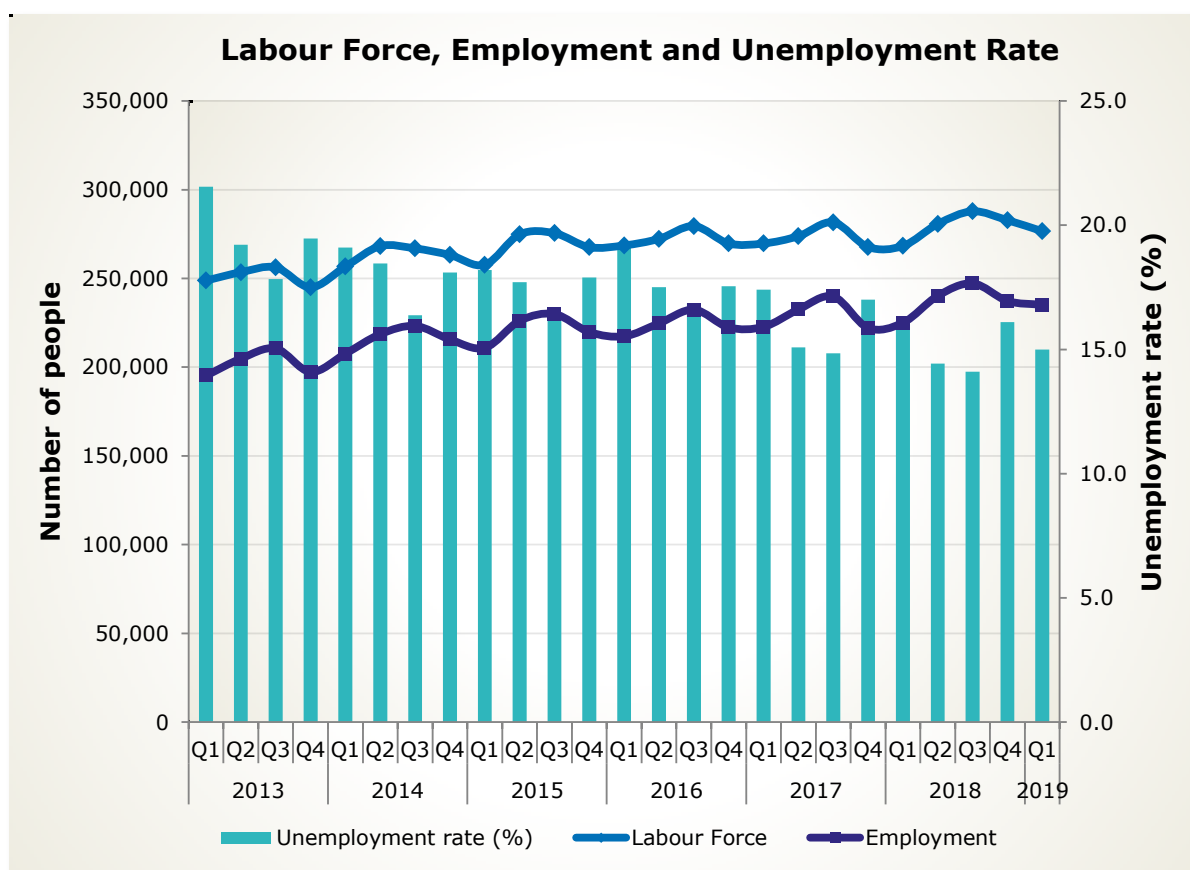
## 3. LABOUR MARKET

### *Unemployment rate at 15.0%, wages almost unchanged y/y in Q1 2019*

Unemployment in Montenegro eased further to 15.0% of the total labour force in Q1 2019, down from 16.1% in Q1 2018, according to data of MONSTAT.

The employed population aged 15 years and older was 235,100 people in Q1 2019, up by 4.5% y/y.

The youth (population aged 15-24) unemployment rate went down to 28.4% y/y from 32.2% in Q1 2018.



Source: MONSTAT

According to MONSTAT, the average monthly net salary in Q1 2019 remained almost unchanged, at EUR 512, compared to EUR 510 a year ago.

## 4. CONSTRUCTION AND REAL ESTATE

### *The number of building permits went down by 54.3% y/y in Q1 2019*

The number of building permits issued in Montenegro in Q1 2019 dropped by 54.3% y/y and totaled 42, according to MONSTAT data.

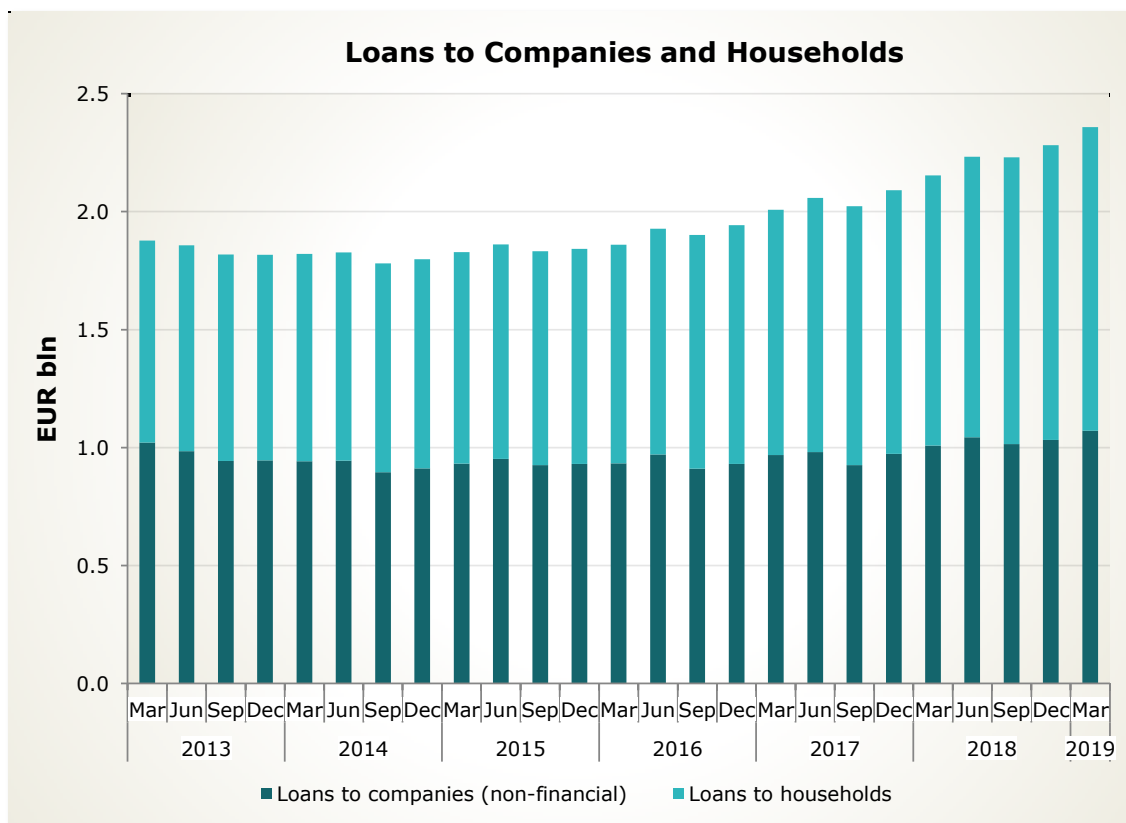
The number of dwellings, covered by the permits, however, jumped to 523 in Q1 2019 from 343 in Q1 2018, and their total built-up area increased to 29,152 sq m from 23,234 sq m in the same quarter of the previous year.

## 5. BANKING AND INSURANCE

### *Household loans grew by 12.4% y/y in end-March 2019*

Loans to non-financial companies totalled EUR 1.071 bln as of March 2019, up by 6.3% y/y, according to Central bank of Montenegro (CBCG).

Household loans grew by 12.4% to EUR 1.287 bln, accounting for 54.6% of the total loans to the non-government and non-financial sector, while corporate loans sliced a 45.4% share.

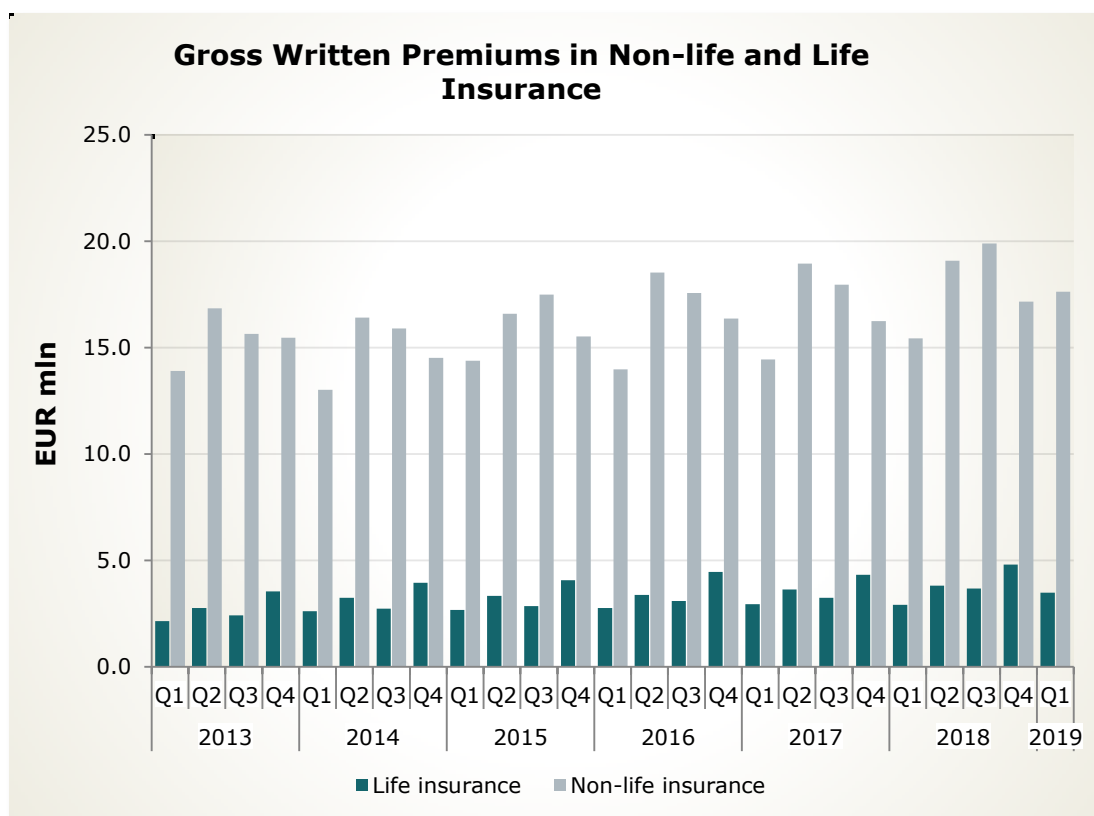


Source: CBCG

## Insurance premiums up 15.0% y/y in Q1 2019

The total gross written premiums of the Montenegrin non-life and life insurance companies stood at EUR 21.127 mln, up by 15.0% y/y, in Q1 2019, according to the country's Insurance Supervision Agency (ANO).

The premiums of the non-life insurance market stood at EUR 17.638 mln, or by 14.2% more than a year earlier, while the life insurance sector grew by 19.5% y/y to EUR 3.489 mln.



Source: ANO

## 6. CAPITAL MARKETS

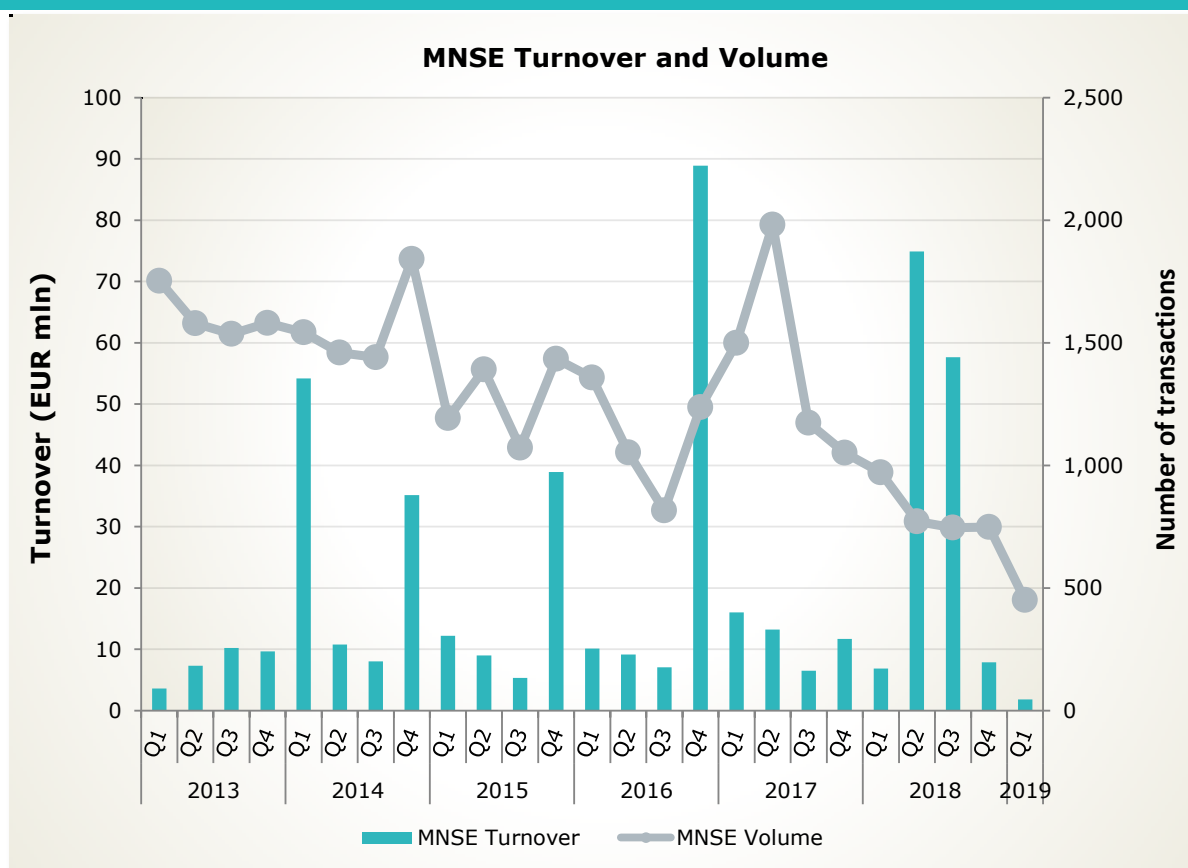
### Blue-chip MNSE10\* averaged 822 points in Q1 2019

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

In Q1 2019, the value of MNSE10, the blue-chip index of the Montenegro Stock Exchange (MNSE), averaged 822 points, down 1.1% q/q from 831 points in Q4 2018.

MNSE's market capitalization went up by 2.1% q/q to EUR 3.111 bln at end-March 2019 in comparison to EUR 3.045 bln in December 2018.

The total turnover on the bourse decreased to EUR 1.831 mln in Q1 2019 from EUR 7.865 mln in December 2018.



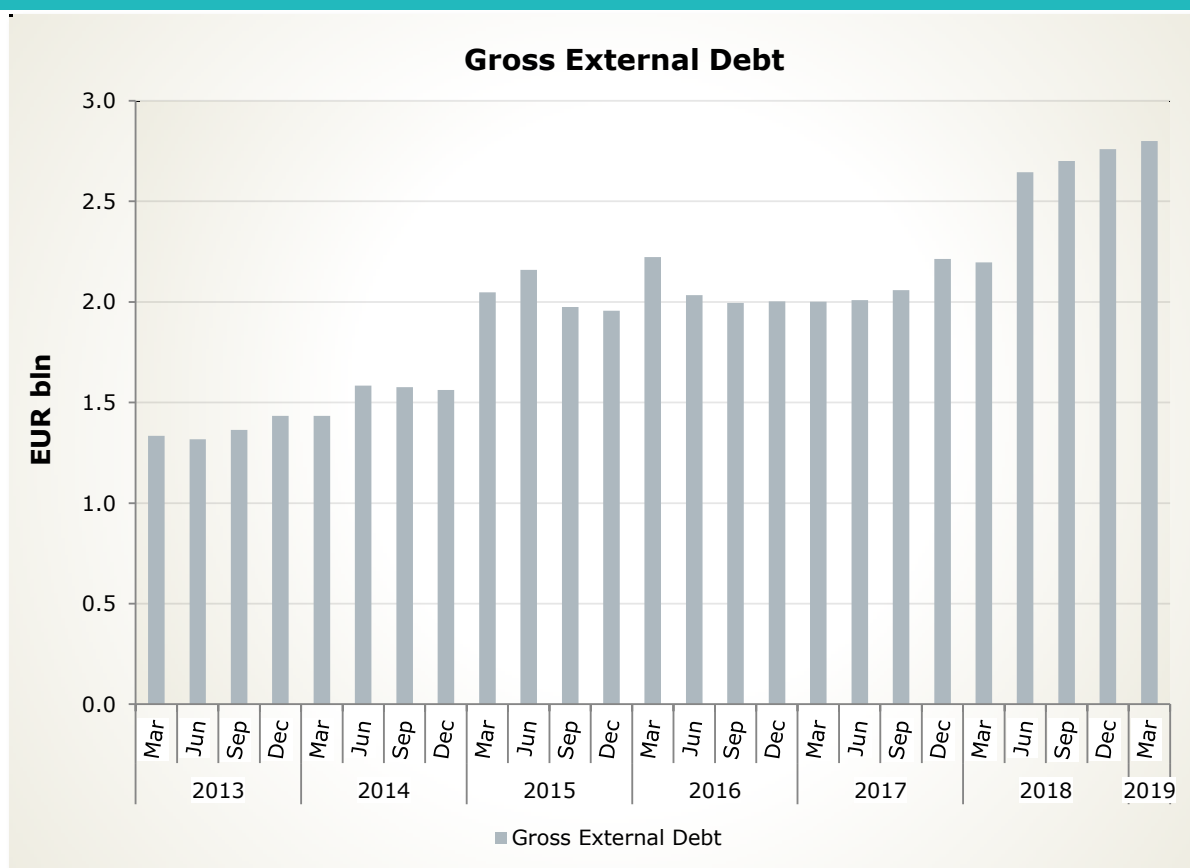
Source: MNSE

## 7. EXTERNAL SECTOR

### 7.1. FOREIGN DEBT

*The gross external debt increased to EUR 2.801 bln in March 2019*

The gross external debt expanded to EUR 2.801 bln in March 2019, up by 27.5% y/y, according to CBCG.



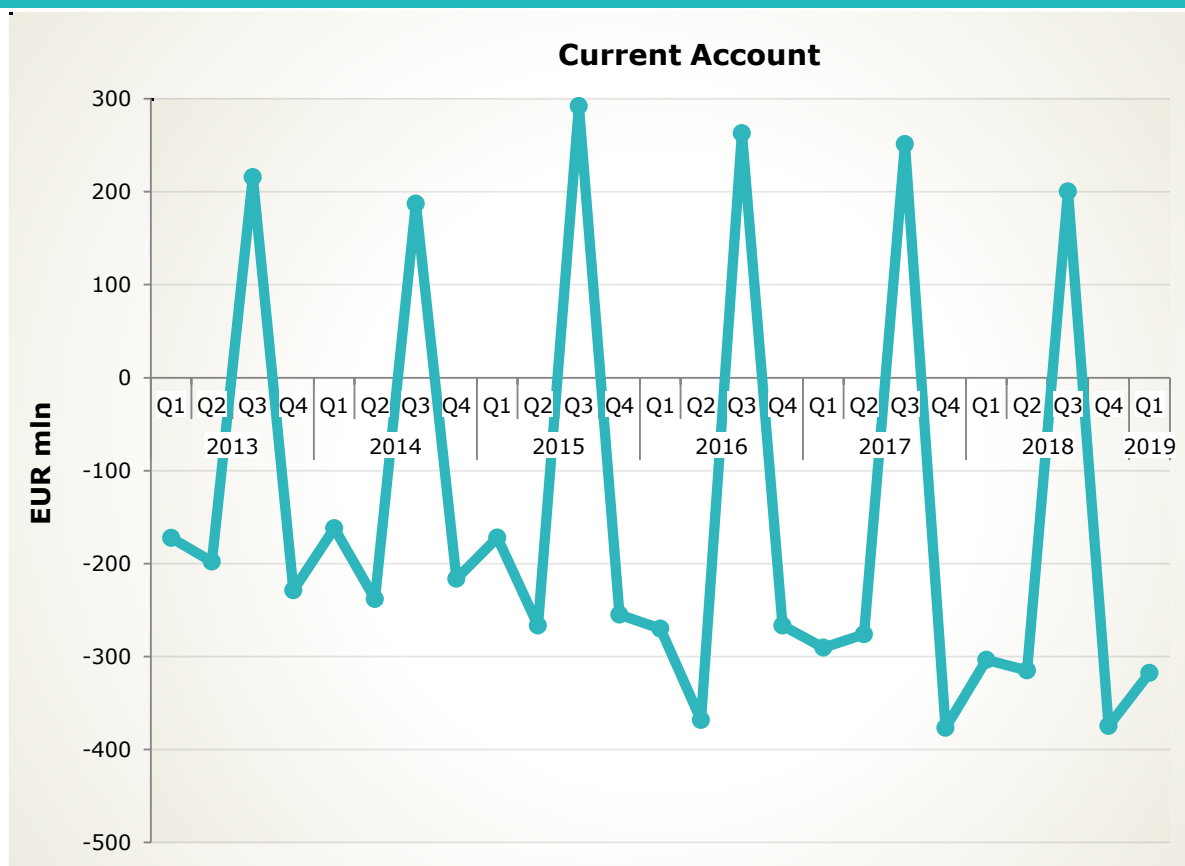
Source: CBCG

## 7.2. BALANCE OF PAYMENTS

### Current account deficit at EUR 317.6 mln in Q1 2019

The current account deficit expanded to EUR 317.6 mln in Q1 2019 from EUR 303.6 mln in Q1 2018, according to central bank statistics data.

Secondary income went up by 0.9% y/y to EUR 56.4 mln compared to EUR 55.9 mln in Q1 2018.



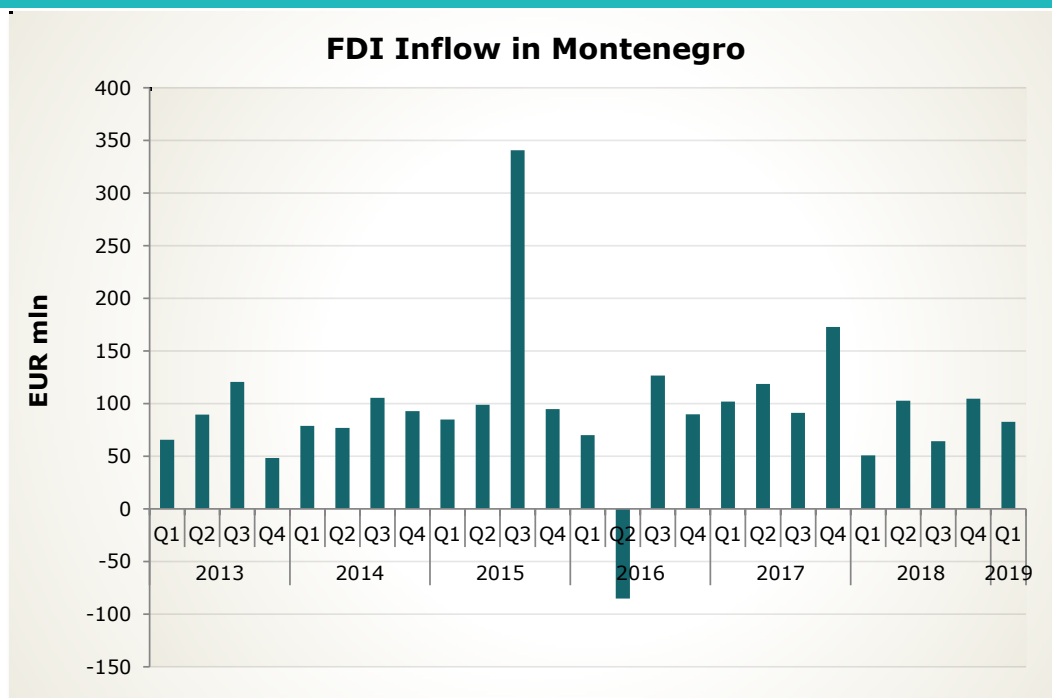
Source: CBCG

## 7.3. FDI

### Net FDI inflow at EUR 82.7 mln in Q1 2019

During the first three months of 2019, net FDI in Montenegro amounted to EUR 82.7 mln, according to CBCG data. This is an increase from the net FDI inflow of EUR 50.8 mln in Q1 2018.





Source: CBCG

## 7.4. FOREIGN TRADE

### Foreign trade deficit grew by 5.5% y/y in Q1 2019

The trade deficit stood at EUR 430.2 mln in Q1 2019, up 5.5% y/y, according to CBCG. Exports decreased by 0.6% y/y to EUR 93.7 mln, while imports went up by 4.3% y/y to EUR 523.8 bln.



Source: MONSTAT

## 7.5. TOURISM

### Number of foreign tourist overnights increased by 29.9% y/y in Q1 2019

Tourist overnights of foreigners rose by an annual 29.9% to 137,111 in Q1 2019, according to MONSTAT. The number of foreign tourists grew even faster, at a rate of 55.7% y/y, to reach 102,742. The share of foreign visitors in total overnights in Montenegro remained very high, at 73.8%, up from 69.6% in the corresponding period of the previous year.



Source: MONSTAT

## 8. MAJOR DEVELOPMENTS

### Montenegro okays agreement to lower roaming fees in W. Balkans

Mar 29, 2019

Montenegro's government has approved the signing of an agreement on lower roaming fees in the Western Balkans, it said.

[Read the full story here](#)

### Montenegro invites bids for Kolasin ski lift construction

Mar 28, 2019

Montenegro's government is inviting bids for the design and construction of a six-person chairlift in the winter resort of Kolasin.

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[Read the full story here](#)

**Montenegro to hire consultant for reforming intercity road passenger transport - EBRD**

Mar 12, 2019

Montenegro's transport ministry plans to hire a consultant who will propose reforms for the improvement of intercity road passenger transport services, the European Bank for Reconstruction and Development (EBRD) said.

[Read the full story here](#)

**Montenegro approves EUR 70 mln loan guarantee deal with EIF**

Mar 1, 2019

Montenegro's government approved the signing of a EUR 70 mln guarantee agreement with the European Investment Fund (EIF) for the establishment of a guarantee fund in the country, the director of the Investment and Development Fund of Montenegro (IRF), Zoran Vukcevic, said.

[Read the full story here](#)

**EBRD to support Montenegro's agribusiness, tourism sectors - Rigterink**

Feb 19, 2019

The European Bank for Reconstruction and Development (EBRD) plans to focus on increasing the competitiveness of Montenegro's private sector through the development of agribusiness value chains and backward linkages in the tourism sector, the lender's first vice president, Jurgen Rigterink, said.

[Read the full story here](#)

**Montenegro expects EUR 80 mln private investment in Podgorica, Tivat airports**

Feb 4, 2019

Montenegro expects investments of EUR 80 mln in its two international airports, in Podgorica and Tivat, within three years after awarding a concession contract for their operation, transport minister Osman Nurkovic has said.

[Read the full story here](#)

**EBRD seeks consultant for waste management project in Montenegro**

Jan 10, 2019

The European Bank for Reconstruction and Development (EBRD) said it is seeking a consultant to prepare a feasibility study for a regional solid waste management project in Montenegro's Bijelo Polje.

[Read the full story here](#)

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