

MONTENEGRO ECONOMY REPORT

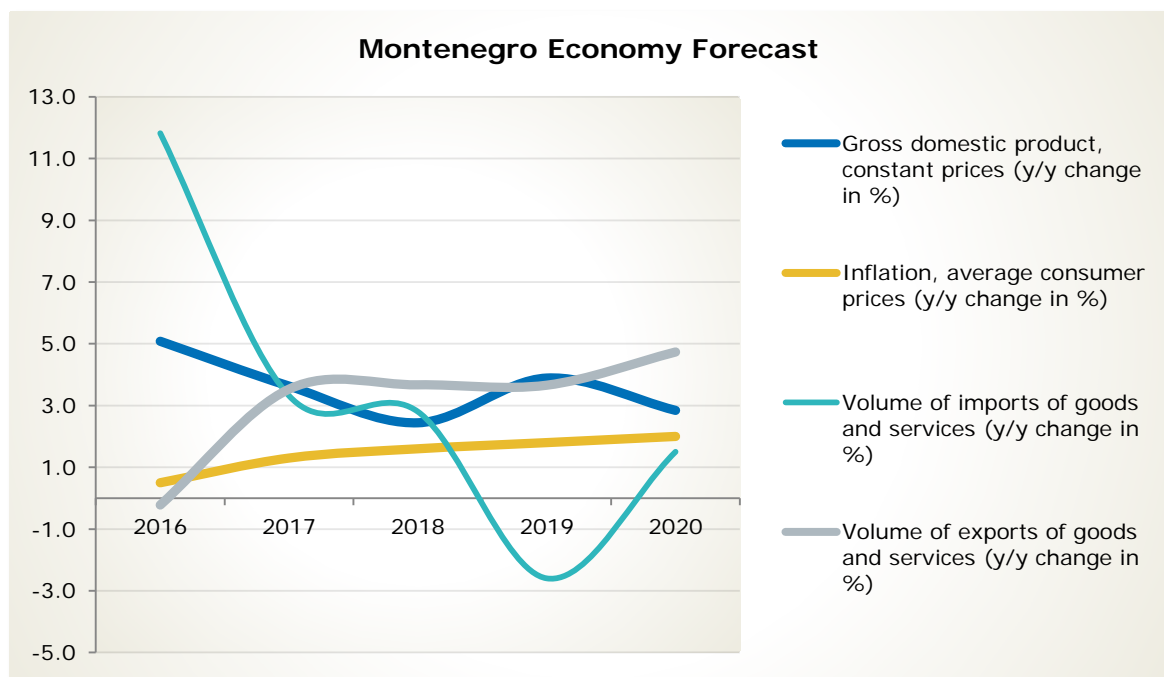
Q2 2016

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1. MACROECONOMIC SNAPSHOT AND FORECAST

MONTENEGRO – MACROECONOMIC SNAPSHOT AS OF Q2 2016	
GDP Growth	2.7% y/y
Industrial output	-5.3% y/y
Industrial sales	-21.4% y/y
Retail sales	2.9% y/y
Annual deflation	0.5%
Unemployment rate	17.5%
Number of building permits	37.6% y/y
Household loans	5.3% y/y
MNSE10 blue-chip index	934 points (base = 1,000 points)
Gross External Debt	EUR 2.034 bln
Current account deficit	EUR 374.9 mln
FDI inflow	EUR 483.9 mln (Jan-Aug 2016)
Foreign trade deficit	EUR 510.8 mln
Number of foreign tourist overnights	6.5% y/y



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

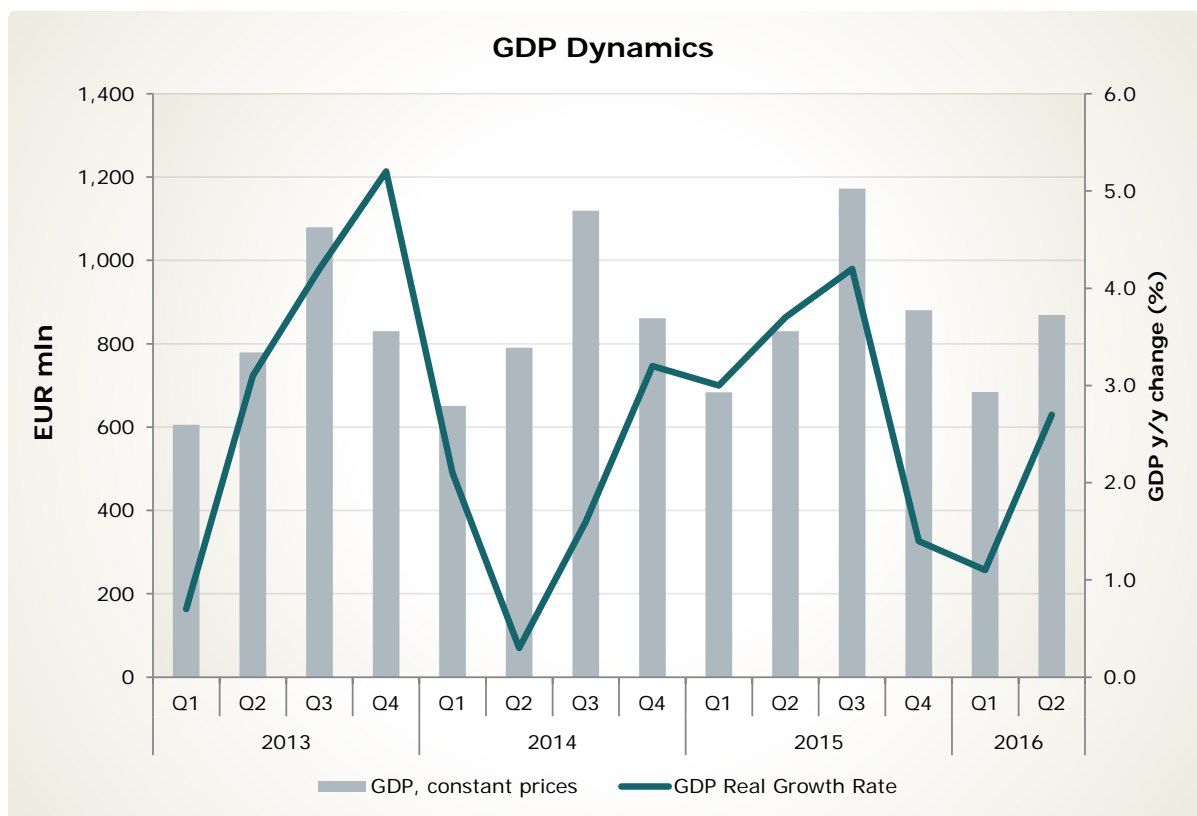
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by real 2.7% y/y in Q2 2016, compared to a 3.7% y/y growth a year ago

The country's real GDP annual growth was 2.7% in the second quarter of 2016, according to the Statistical Office of Montenegro (MONSTAT). The GDP totalled EUR 869.3 mln in constant prices in Q2 2016, compared to EUR 830.2 mln in the corresponding quarter of the previous year.

Final consumption increased in value terms by 4.9% on the year to EUR 917.2 mln in Q2 2016. Gross capital formation went up by 44.4% to EUR 310.0 mln. Imports grew by 21.2%, while exports increased by 17.0%.



Source: MONSTAT

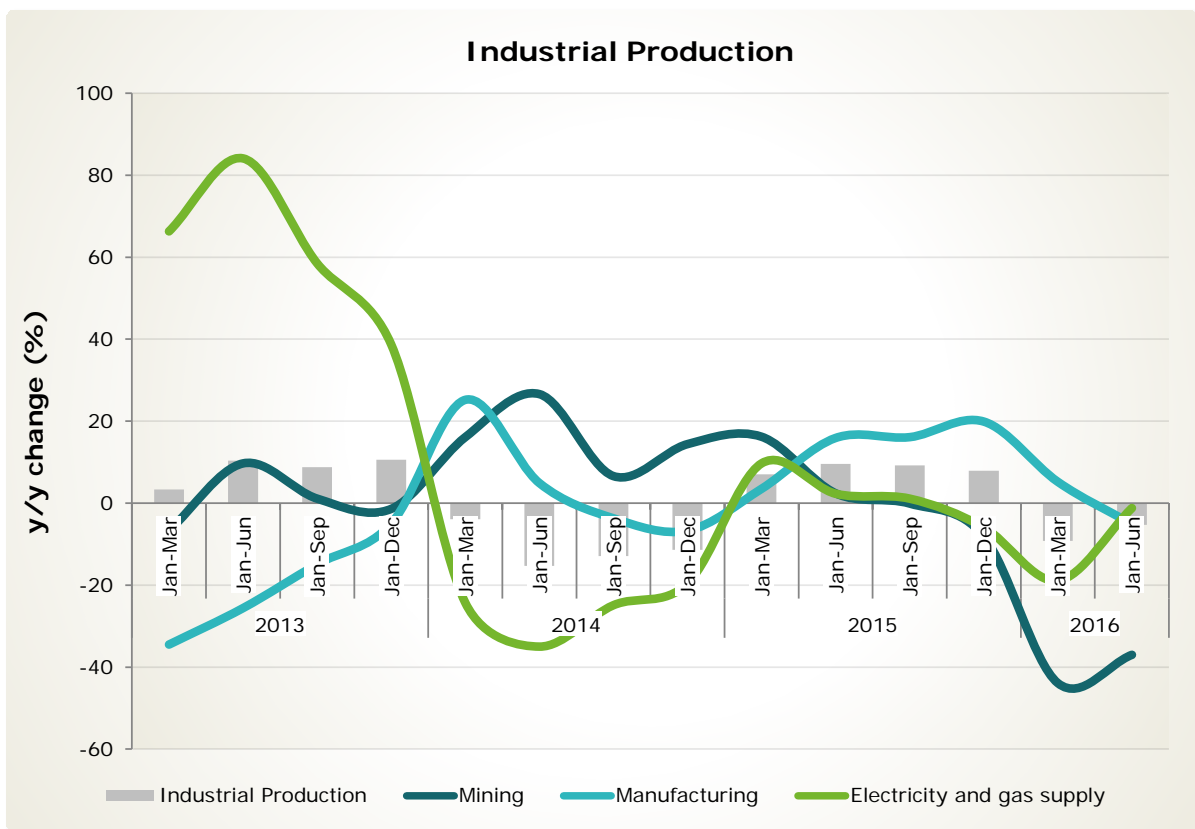
2.2. INDUSTRIAL OUTPUT

Industrial output down 5.3% y/y in Jan-Jun 2016

Industrial output went down by 5.3% on the year in January to June 2016, according to MONSTAT.

The overall drop was caused by the 37.0% slump of the production of the mining industry and the 5.1% fall of the manufacturing output. The electricity and gas supply industry performed better than the others, but still registered a 1.2% annual decrease.

Manufacture of tobacco products experienced the sharpest annual drop in production – 86.3%, while manufacturing of leather and related was the segment with the highest annual production growth, of 33.3%.



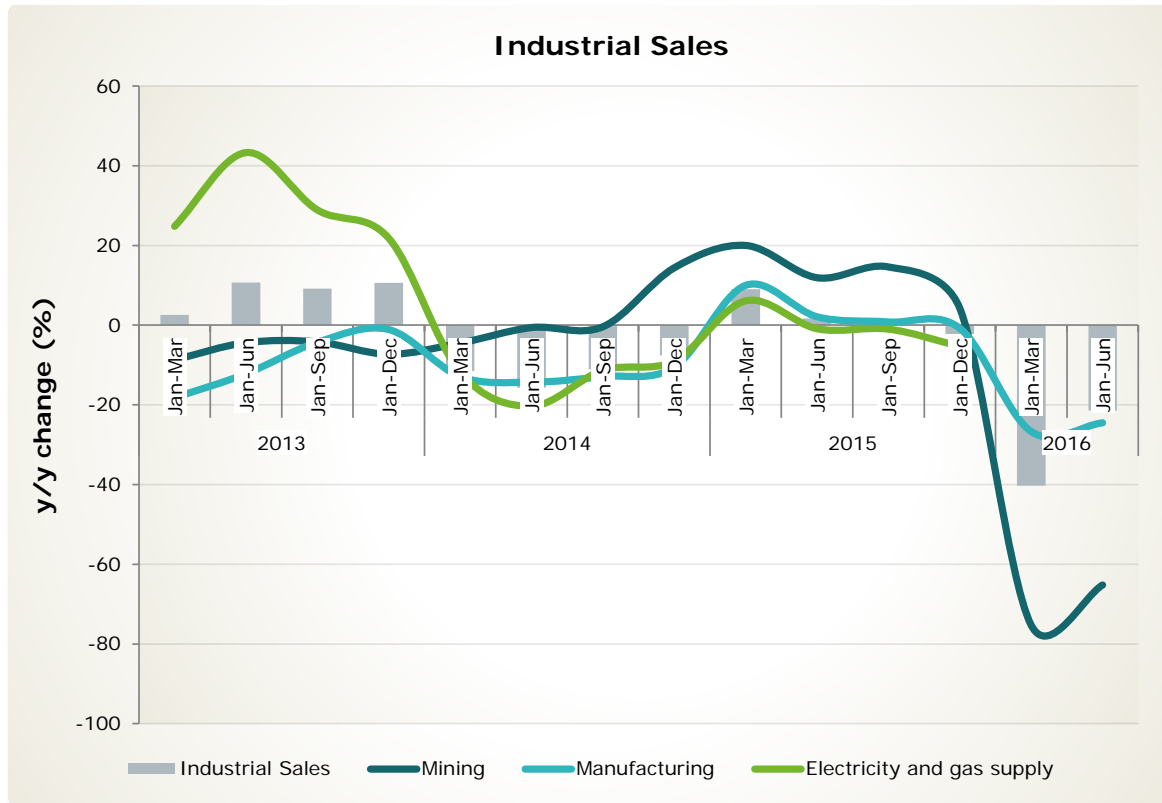
Source: MONSTAT

2.3. INDUSTRIAL SALES

Industrial sales shrank by 21.4% y/y in Jan-Jun 2016

Industrial sales slumped by an annual 21.4% in January to June 2016, according to MONSTAT.

The downtrend in the second half of the year was due to the 65.2% annual drop in the sales of the mining and quarrying sector, and the 24.5% decrease in the sales of the manufacturing sector.



Source: MONSTAT

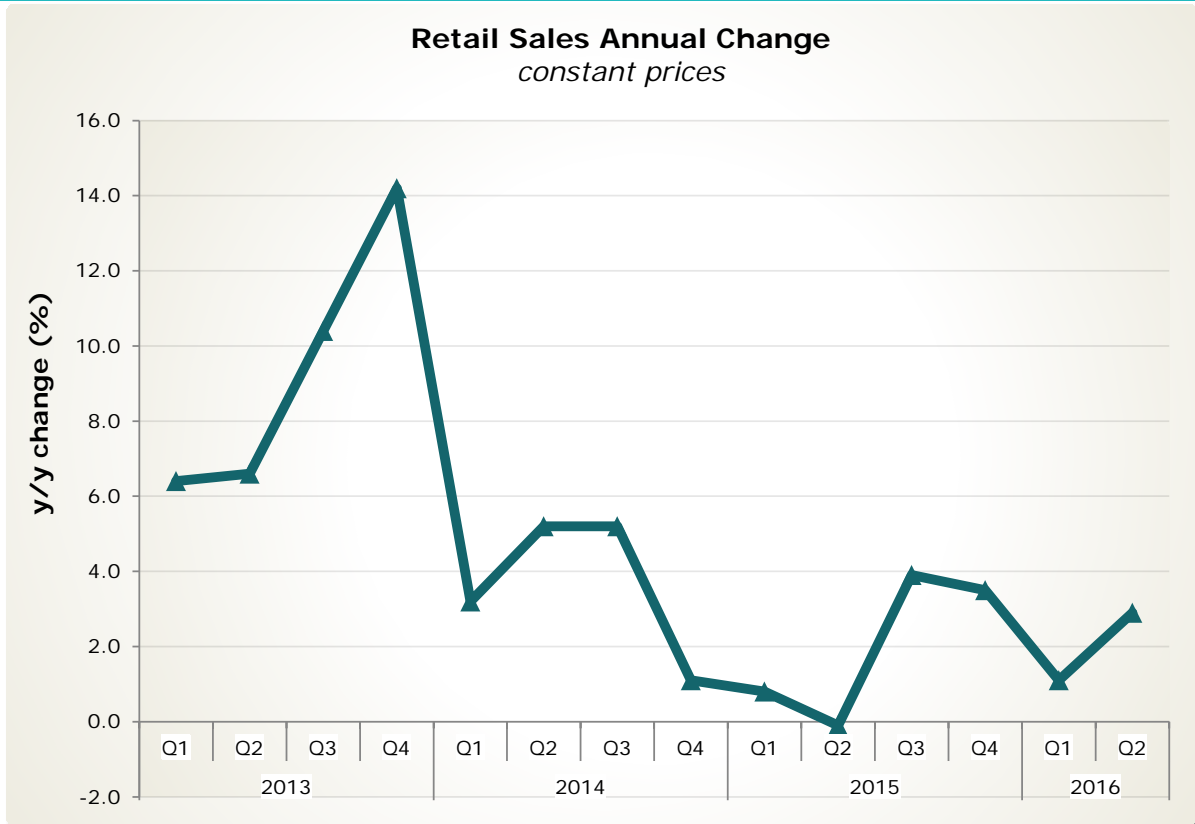
Editor's note: Data for electricity and gas supply sales was not available for January - June 2016.

2.4. WHOLESALE/RETAIL

Retail grew y/y in Q2 2016

Retail sales went up by 2.9% in constant prices in the second quarter of 2016, compared to the corresponding quarter of the previous year, according to MONSTAT data.

All sectors registered an average annual increase. Retail trade of food, drinks and tobacco led the ranking in terms of sharpest average annual growth with 19.4%.



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.

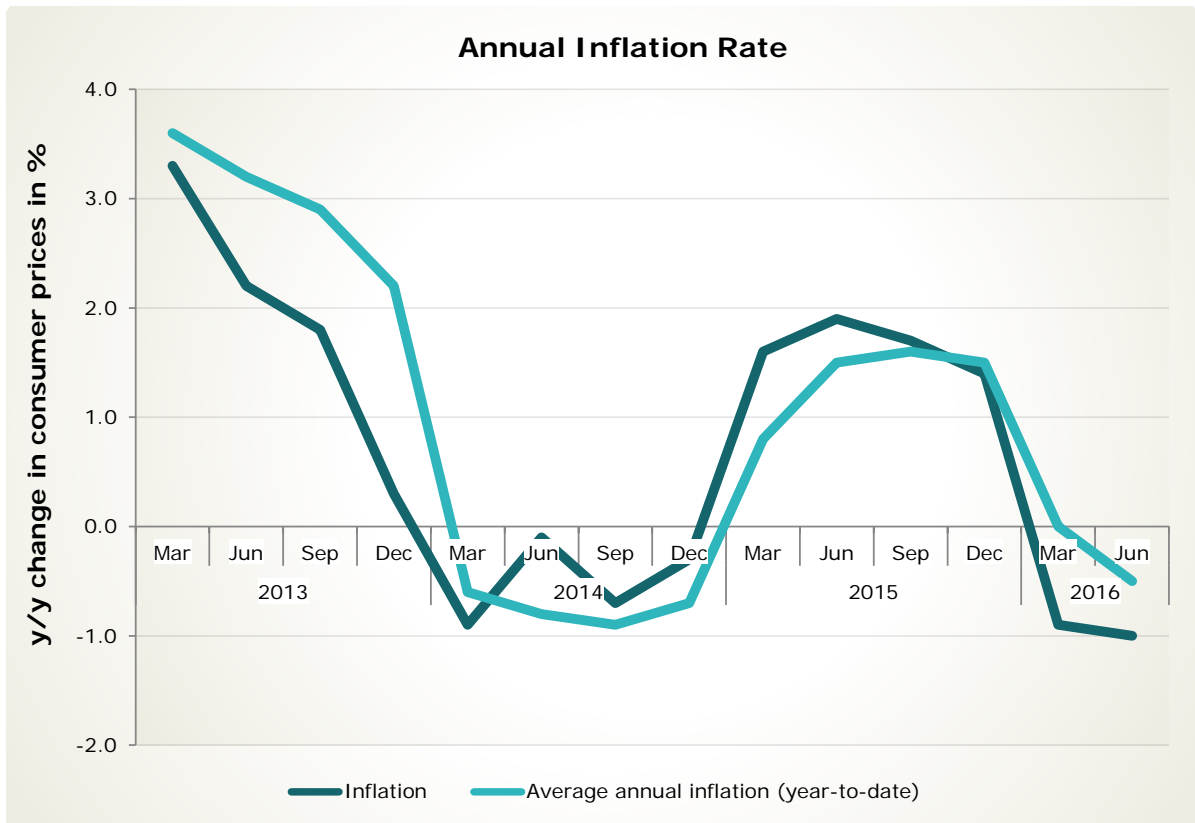
Wholesale of pharmaceutical products came on top in terms of highest annual growth with 17.1%, while scrap and waste wholesale dropped the sharpest, by 15.0%, thus accounting for only 0.06% of the total wholesales.

2.5. INFLATION

Average deflation of 0.5% y/y in Jan-Jun 2016

Montenegro registered an average annual deflation of 0.5% for the first six months of 2016, according to MONSTAT data.

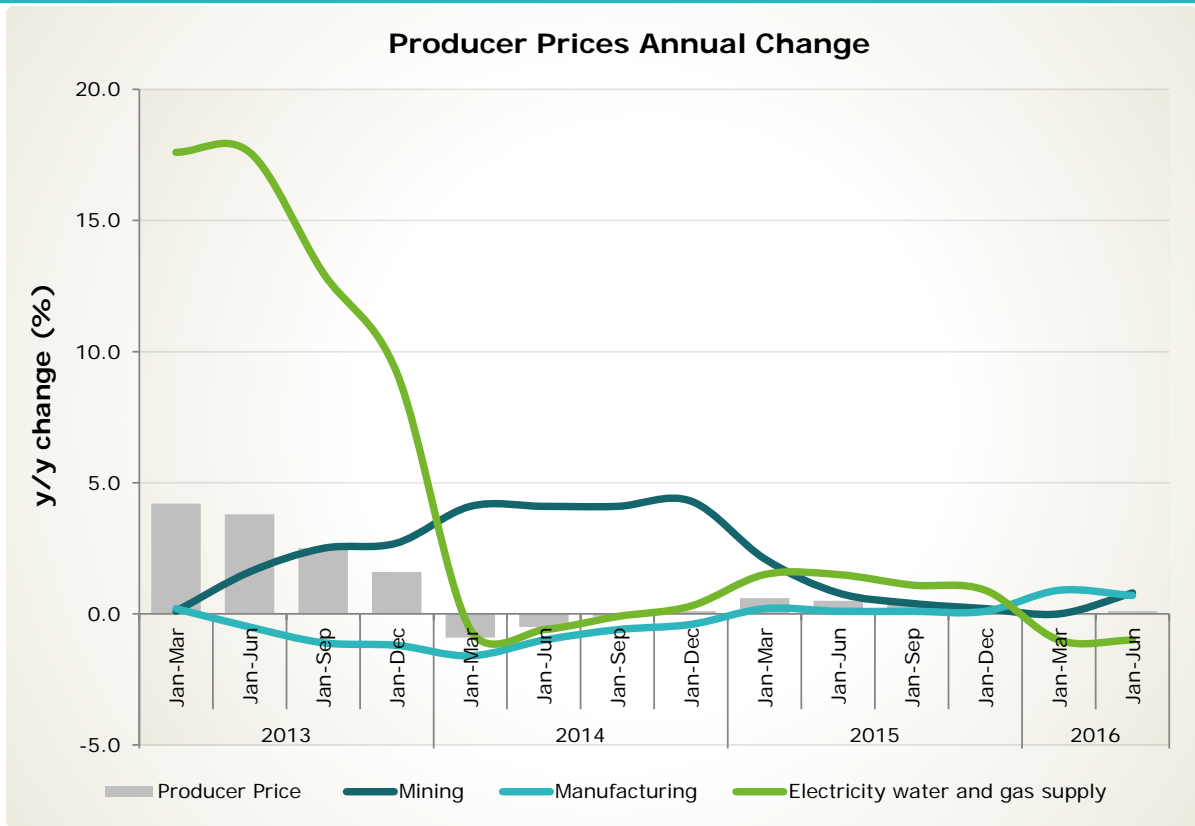
Segment wise, the highest annual increase in consumer prices, of 2.8%, was registered in alcoholic beverages and tobacco, and clothing and footwear, while transport service prices dropped the most – by 5.9%.



Source: MONSTAT

Producer prices inched up by 0.1% y/y in the first two quarters of 2016. The mining and quarrying sector registered an annual increase in producer prices of 0.8%, while producer prices in the electricity, gas and water supply sector decreased by 1.0%.

Looking by segments, producer prices grew the most, by 11.5%, in the manufacturing of leather and leather products, while the sharpest decline, of 1.1%, was registered by manufacturing of basic pharmaceutical products and preparations.



Source: MONSTAT

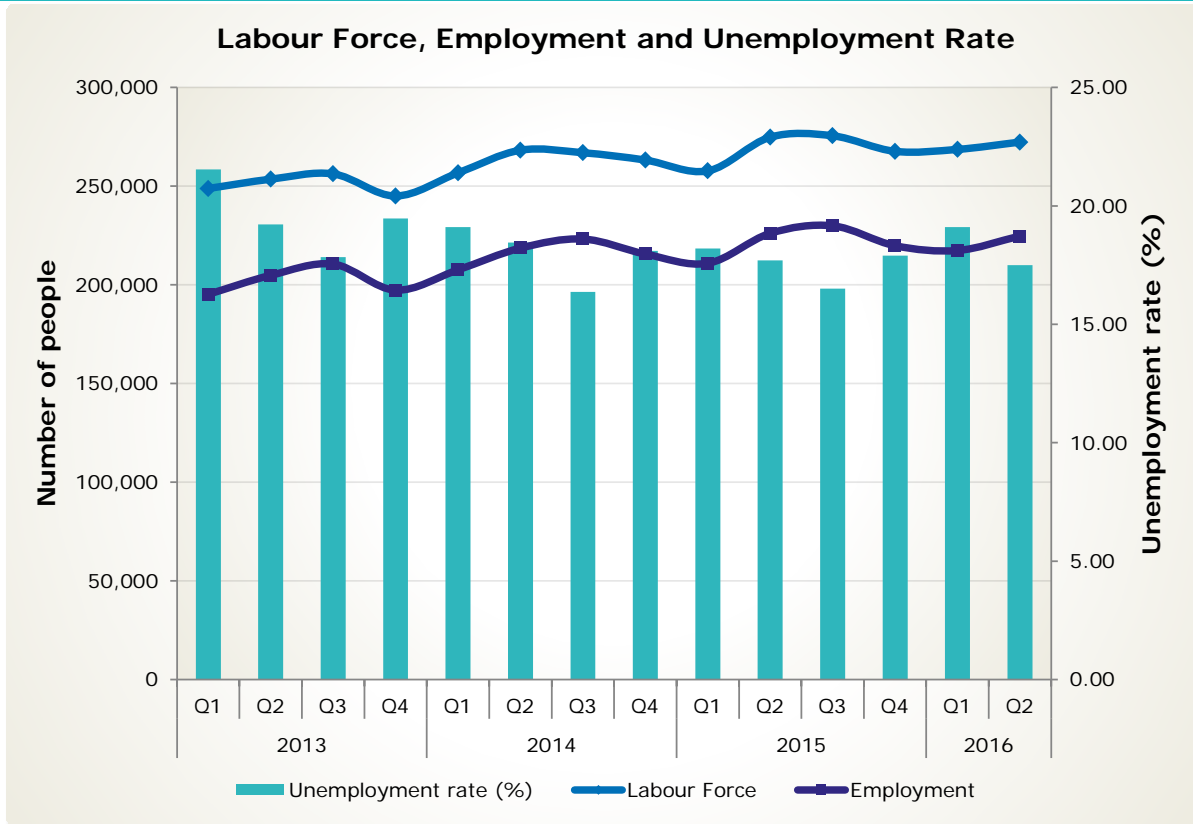
3. LABOUR MARKET

Unemployment rate at 17.5%, wages up 4.2% y/y in Q2 2016

Unemployment in Montenegro fell to 17.5% of the total labour force in Q2 2016 from 17.7% in the corresponding quarter a year ago, according to data of MONSTAT.

The employed population aged 15 years and older was 224,700 people in Q2 2016, down by 0.6% compared to the 226,100 a year earlier.

The youth (population aged 15-24) unemployment rate went down to 35.5% from 37.6%.



Source: MONSTAT

The average monthly net salary in Q2 2016 increased by 4.2% y/y to EUR 500, according to MONSTAT.

Employees in the financial and insurance activities had the highest average monthly net salaries, of EUR 907, followed by the electricity, gas, steam and air conditioning supply with EUR 880, and real estate activities with EUR 745.

The lowest wage, of EUR 313, was paid in the administrative and support service activities. Wholesale and retail trade, repair of motor vehicles and motor recycles sector followed with EUR 346 and employees in the arts, entertainment and recreation earned the third lowest wages in the country, of EUR 386.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits grew by 37.6% y/y in Q2 2016

The number of building permits issued in Montenegro in Q2 2016 increased by 37.6% y/y and totalled 267, according to MONSTAT data.

In line with the overall growth, the number of dwellings, covered by the permits, also increased by 35.2% to 988 and their total built-up area expanded to 68,505 sq m from 46,871 sq m.

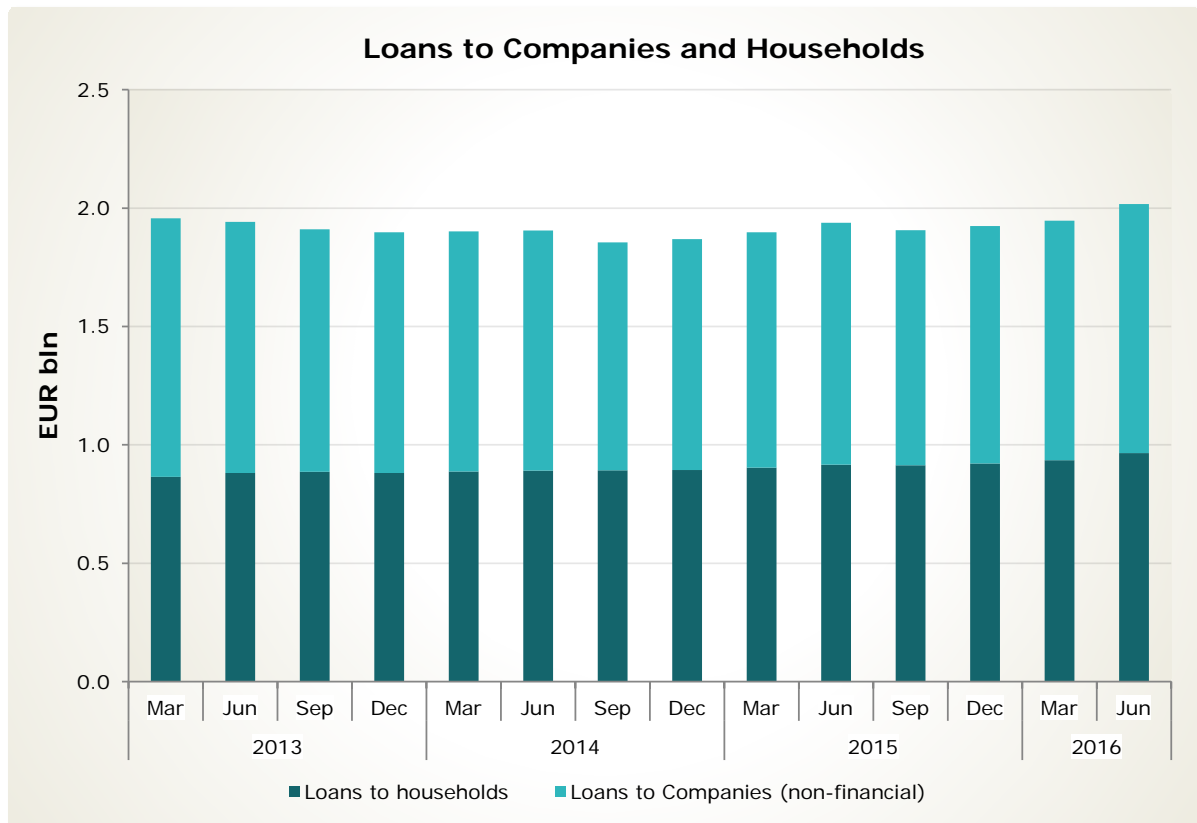
The average dwelling price went down to EUR 1,050 per sq m in Q2 2016 from EUR 1,169 per sq m a year earlier. Among the major cities, the average price was the highest – EUR 1,505 per sq m in coastal Budva, while the lowest average price, of EUR 575 per sq m, was registered in Niksic, western Montenegro.

5. BANKING AND INSURANCE

Household loans increased by 5.3% y/y at end-June 2016

Loans to the non-government and non-financial sector totalled EUR 2.018 bln as of June 2016, up by 4.1% y/y, according to Central bank of Montenegro (CBCG).

Household loans grew by 5.3% to EUR 965.7 mln, accounting for 47.9% of the total loans to the non-government and non-financial sector, while corporate loans increased by 3.0% to EUR 1.052 bln, thus slicing a 52.1% share.



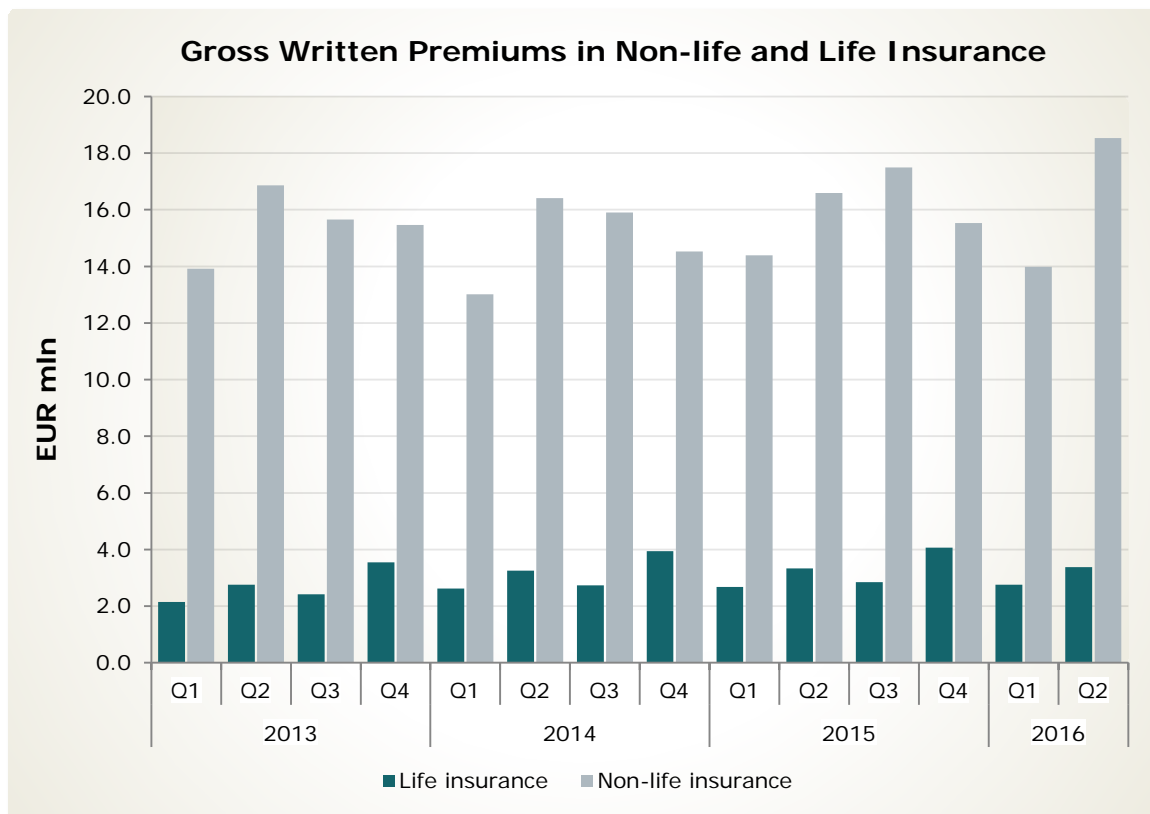
Source: CBCG

The total assets of the banking system reached EUR 3.738 bln at the end of June 2016 versus EUR 3.477 bln a year earlier. Among the liabilities, the sum of deposits also grew – to EUR 2.626 bln from EUR 2.403 bln in June 2015.

Insurance premiums went up 9.9% y/y in Q2 2016

The total gross written premiums of the Montenegrin non-life and life insurance companies stood at EUR 21.905 mln, up by 9.9% y/y, in the second quarter of 2016, according to the country's Insurance Supervision Agency (ANO).

The premiums of the non-life insurance market stood at EUR 18.528 mln, or by 11.6% more than a year earlier, while the life insurance sector grew by 1.4% to EUR 3.376 mln.



Source: ANO

6. CAPITAL MARKETS

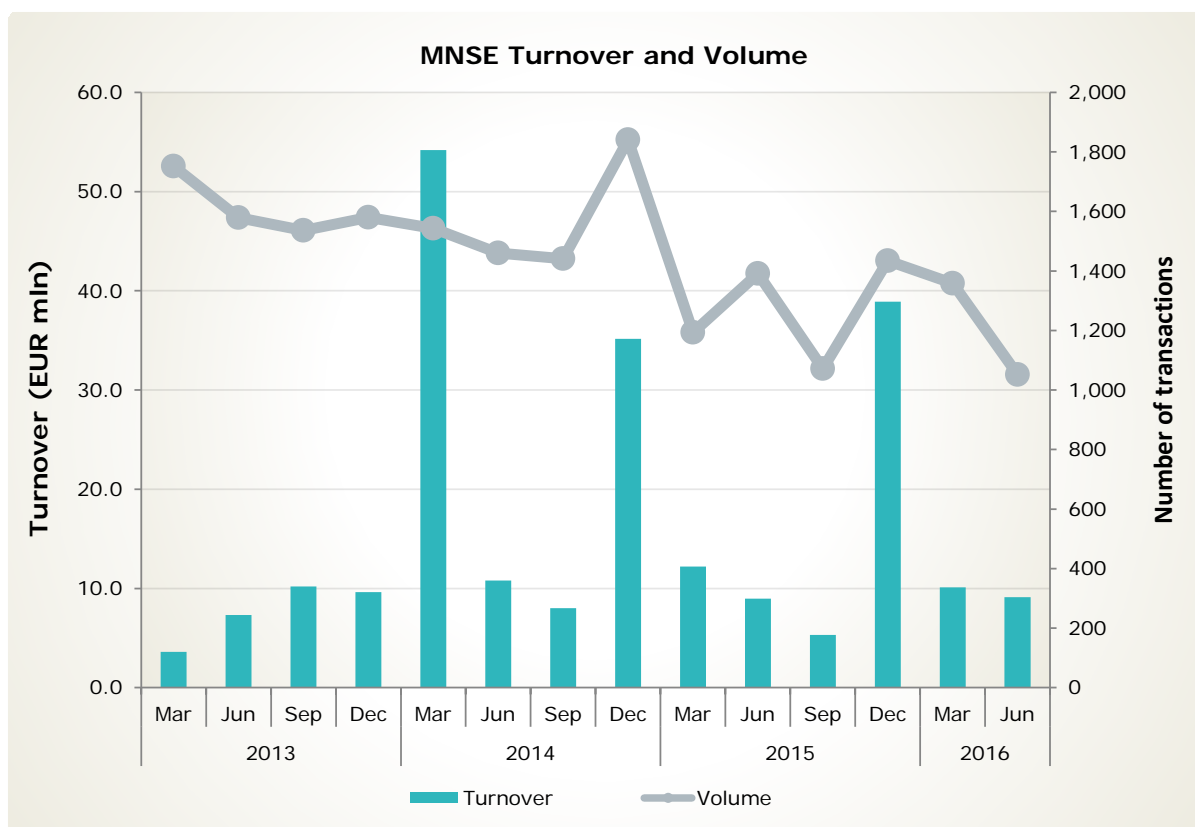
Blue-chip MNSE10* averaged 934 points in Q2 2016

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

In Q2 2016, the value of MNSE10, the blue-chip index of the Montenegro Stock Exchange (MNSE), averaged 934 points, compared to a base value of 1,000 points.

MNSE's market capitalization went down by 7.1% y/y to EUR 2.826 bln at end-June 2016.

The total turnover on the bourse expanded to EUR 9.126 mln in Q2 2016 from EUR 8.974 mln a year earlier.



Source: MNSE

7. EXTERNAL SECTOR

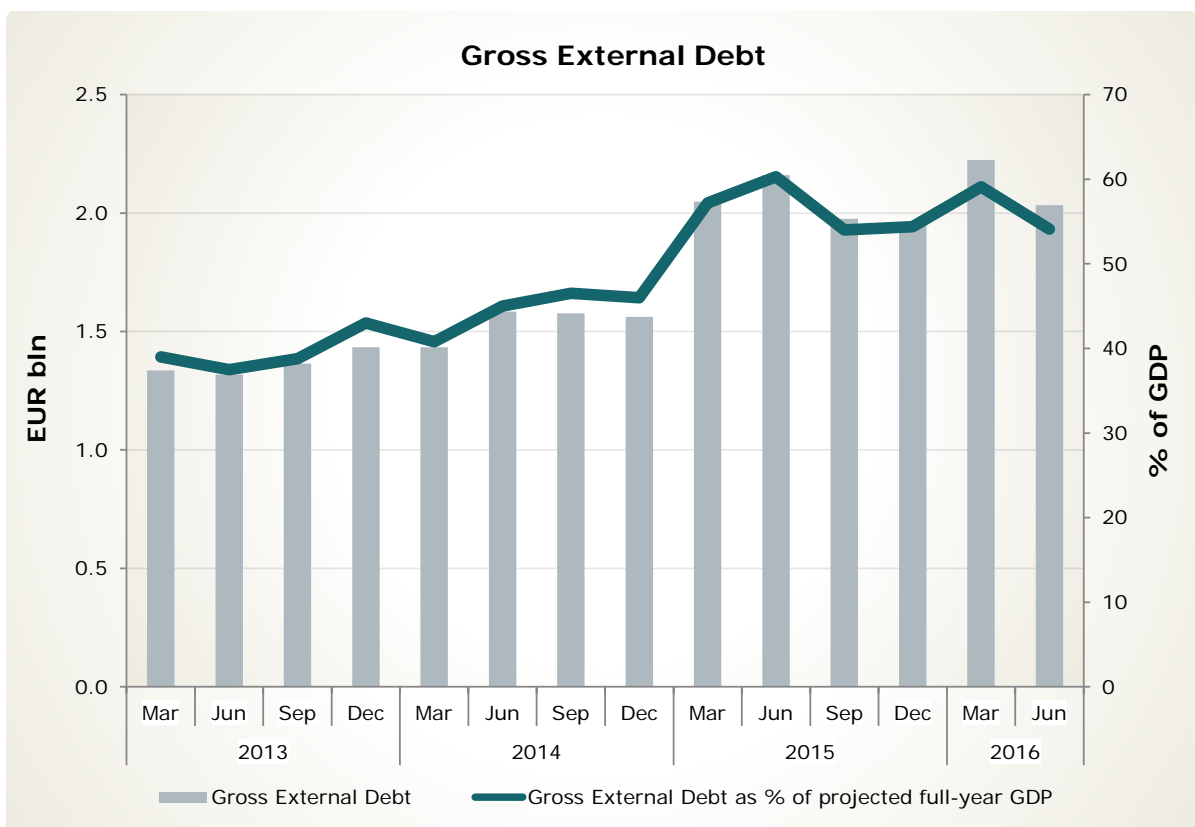
7.1. FOREIGN DEBT

The gross external debt shrank annually to EUR 2.034 bln at end-June 2016

The gross external debt decreased to EUR 2.034 bln at the end of June 2016, down by 5.8% or EUR 126.2 mln, compared to a year earlier, according to CBCG. The gross external debt accounted for 54.1% of the projected full-year GDP.

The largest share, 54.0%, in the total gross external debt had Eurobonds, followed by debts to the International Bank for Reconstruction and Development (IBRD), which made up 10.6% of the total and China's Exim Bank with an 8.4% share in the total debt.

Government debt decreased by 6.8% to EUR 2.361 bln at end-June 2016.



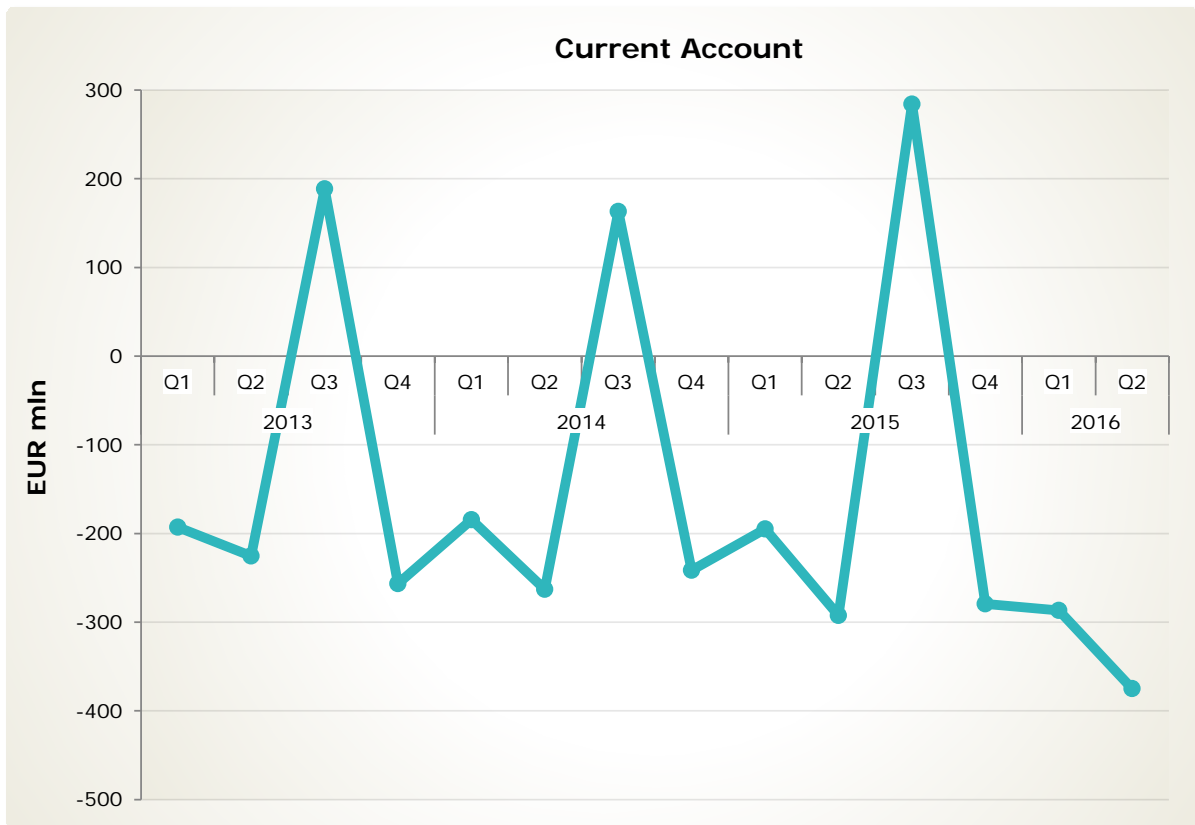
Source: CBCG

7.2. BALANCE OF PAYMENTS

Current account deficit at EUR 374.9 mln in Q2 2016

The current account gap widened to EUR 374.9 mln in Q2 2016 from EUR 292.6 mln in Q2 2015, according to central bank statistics data.

Secondary income went down to EUR 25.313 mln compared to EUR 28.806 mln in the second quarter of 2015.



Source: CBCG

7.3. FDI

FDI inflow down 10.9% y/y in Jan-Aug 2016

**Data for Jan-Jun 2016 is not available*

FDI went down by 10.9% annually, to EUR 483.9 mln, in the period January – August 2016, according to CBCG data.

In the period under review, Norway was the biggest foreign investor in Montenegro with direct investments of EUR 188.661 mln, Italy came second with EUR 44.334 mln and Hungary came third with EUR 34.018 mln.

Inflow in the form of investments in companies and banks and real estate amounted to EUR 104.714 mln and EUR 71.791 mln, respectively. Intercompany debt FDI inflow stood at EUR 118.508 mln and other FDI made up the remaining EUR 188.906 mln.

7.4. FOREIGN TRADE

Foreign trade deficit grew by 17.6% y/y in Q2 2016

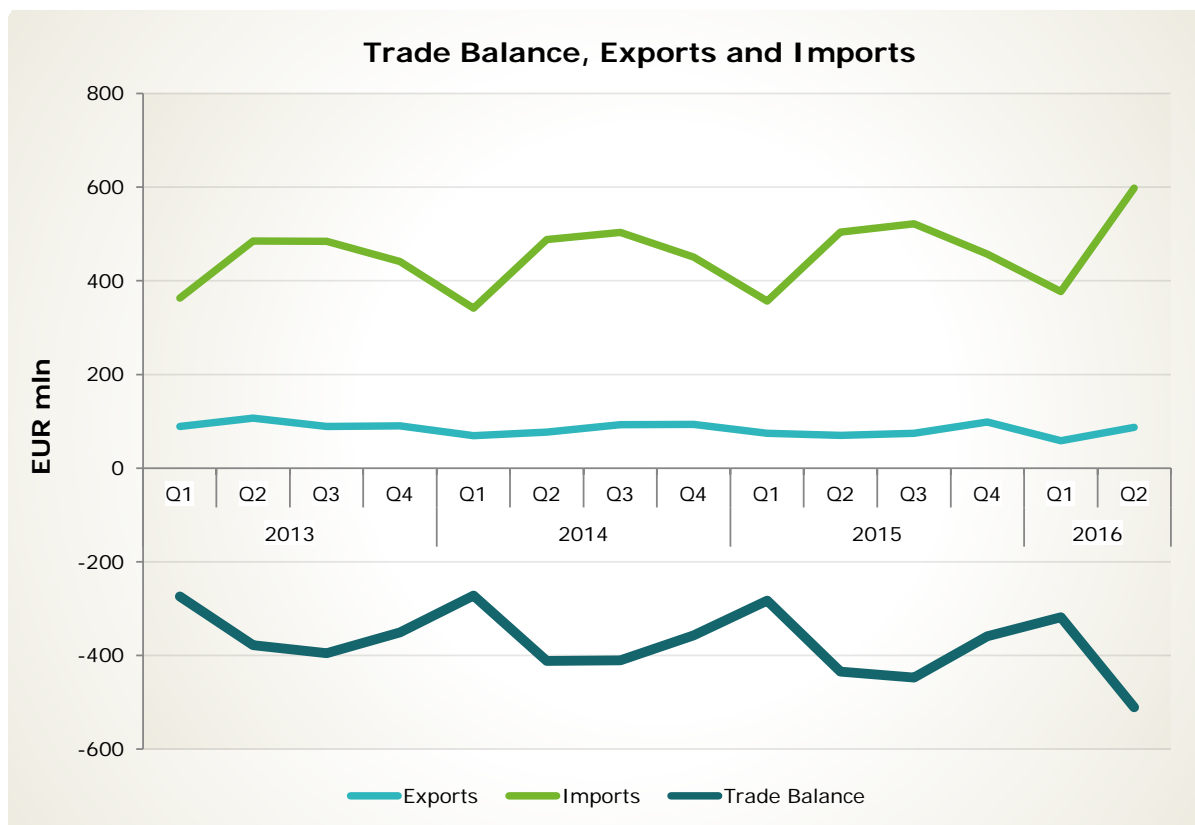
The trade deficit stood at EUR 510.8 mln in Q2 2016, compared to EUR 434.4 mln in Q2 2015, according to CBCG.

Montenegro's most exported goods in Q2 2016 were non-ferrous metals – EUR 21.352 mln, followed by electricity – EUR 10.243 mln, and metalliferous ores and metal scrap – EUR 9.771 mln.

In terms of imports, the leaders were electrical machinery, apparatus and appliances – EUR 42.267 mln, road vehicles – EUR 42.006 mln, and power-generating machinery and equipment – EUR 39.168 mln.

The country's main export markets in Q2 2016 were Serbia, accounting for 21.9% of the total exports, followed by Hungary with a 16.1% share and exports to Italy made up 7.1% of the total.

Serbia and Germany were Montenegro's main trading partners in terms of imports with shares in the total imports of 20.6% and 14.1%, respectively. Imports from Croatia had the third largest share, of 5.1%.



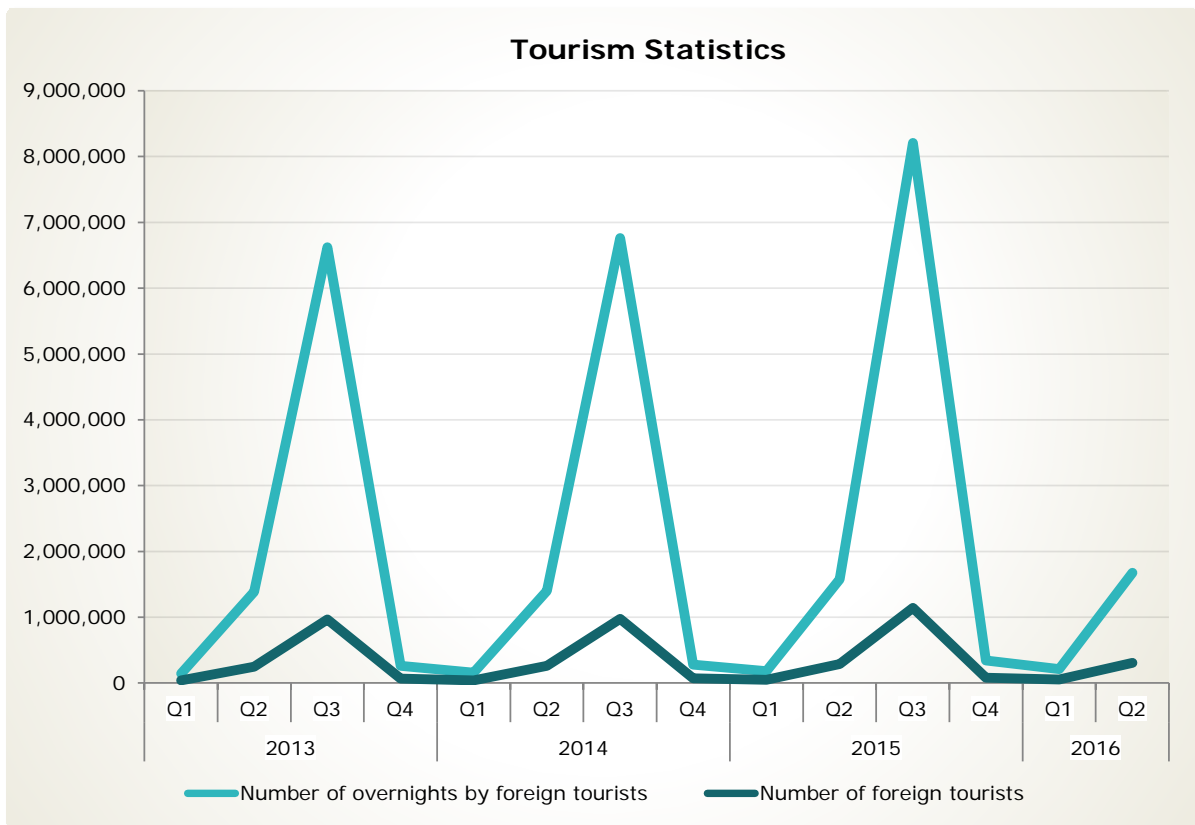
Source: MONSTAT

7.5. TOURSIM

Number of foreign tourist overnights grew by 6.5% y/y in Q2 2016

Tourist overnights of foreigners increased by an annual 6.5% to 1,676,740 in Q2 2016, according to MONSTAT.

The number of foreign tourists also went up - by 7.0% y/y to 307,727. Russian tourists led the ranking, accounting for 21.5% of the total number of tourists visiting Montenegro, followed by Serbians with a 15.4% share, and tourists from Bosnia and Herzegovina with a 5.5% share.



Source: MONSTAT

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