

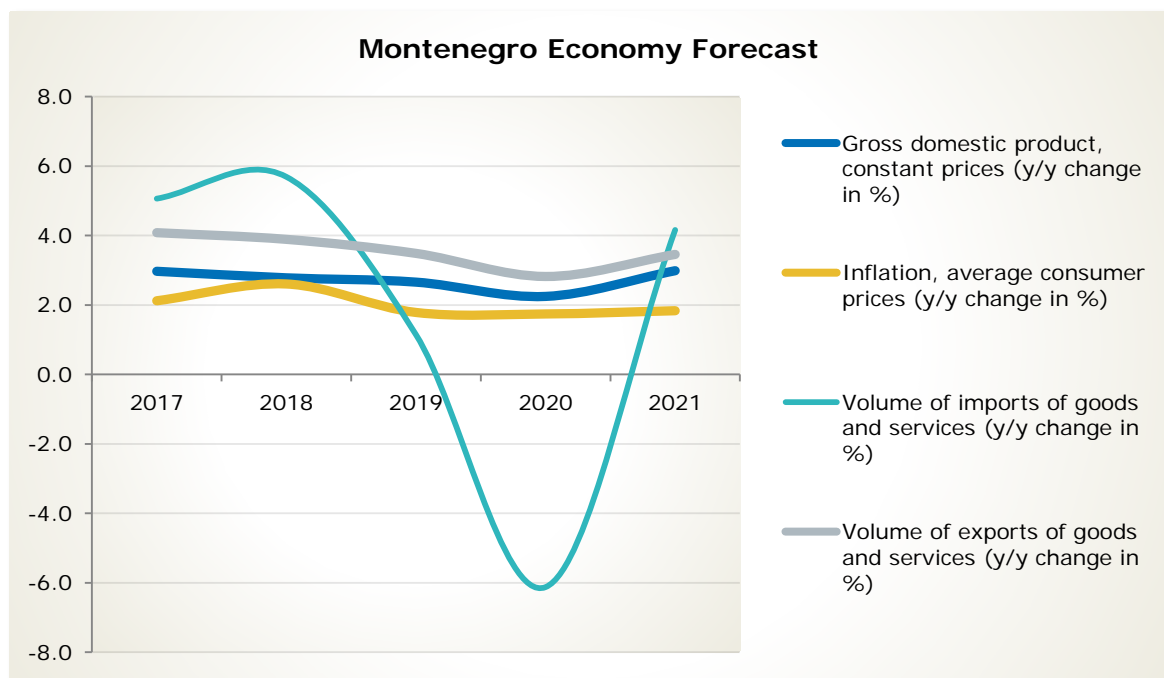
MONTENEGRO ECONOMY REPORT Q2 2017

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1. MACROECONOMIC SNAPSHOT AND FORECAST

MONTENEGRO – MACROECONOMIC SNAPSHOT AS OF Q2 2017	
GDP Growth	5.1% y/y
Industrial output	-9.6% y/y
Industrial sales	14.6% y/y
Retail sales	3.5% y/y
Annual inflation	2.3%
Unemployment rate	15.1%
Number of building permits	-1.1% y/y
Household loans	12.1% y/y
MNSE10 blue-chip index	-7.9% q/q
Gross External Debt	EUR 2.009 bln
Current account deficit	EUR 310.2 mln
FDI inflow	EUR 687.2 mln (2016)
Foreign trade deficit	EUR 521.4 mln
Number of foreign tourist overnights	18.9% y/y



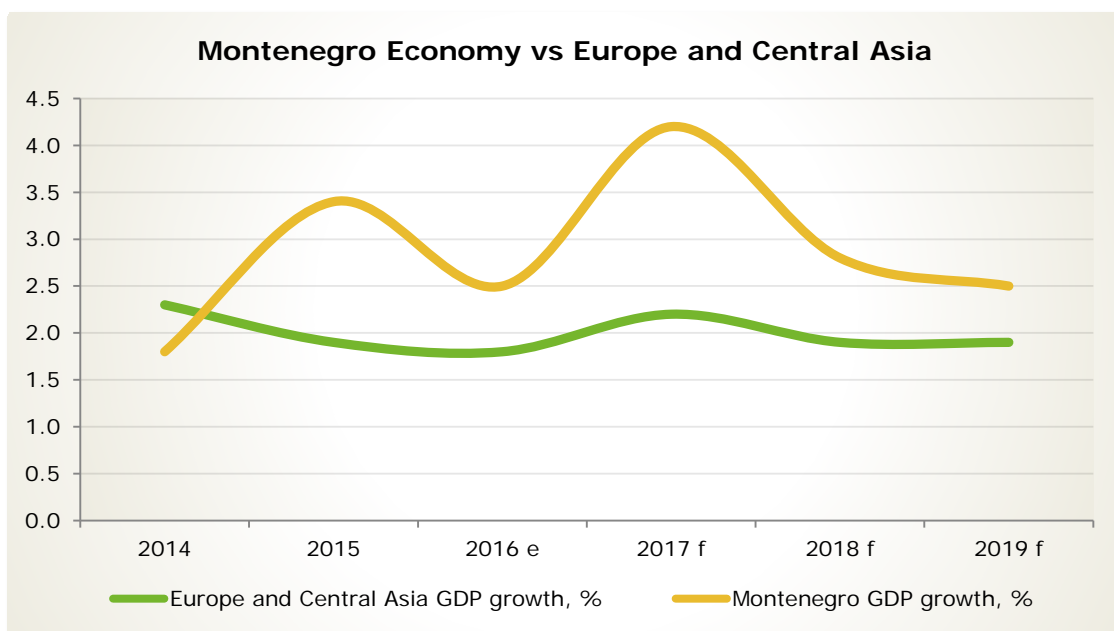
Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2017

The economy of Montenegro is projected to expand by 3.0% in 2017, an increase compared to the realized 2.5% growth in 2016, according to IMF estimates. The GDP will grow from the positive impact effects from highway investments and to a lesser extent from private investments. The external sector will contribute negatively on the growth in 2017 as the current account deficit is projected to increase due to import needs related to capital

investments, according to the fund. The economic growth over the medium term is expected to average 2.7% over the next five years.

IMF sees inflation slightly more than 2.0% on average and expects low inflation in the euro area will restrain price pressures in Montenegro in the near term.

Risks to the IMF forecasts include the high levels of government debt, which is projected to increase to 82% of GDP by 2019. In addition, the overall budget deficit in 2017 is projected to increase to 7.5% of GDP, mainly on account of highway spending.



Source: World Bank, Europe and Central Asia Economic Update, October 2017

According to the World Bank forecast, the economy of Montenegro will grow by an average of 3.2% annually in 2017-2019 on large public investments and personal consumption. Inflation is projected at an average of 2.5% in the period 2017-2019.

The large public investments are expected to widen external imbalances and the current account deficit will grow to almost 20% of GDP in 2017-2019. According to the World Bank, once the economic growth slows, the external and fiscal imbalances will further increase the overall government debt level, which would add to already high vulnerability to external shocks.

Montenegro – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)

	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices, y/y change in %	1.8	3.4	2.5	4.2	2.8	2.5
Private Consumption	2.9	2.2	2.6	2.6	0.6	2.3
Government Consumption	1.4	1.9	8.1	-2.4	-2.2	-1.1
Gross Fixed Capital Investment	-2.5	11.9	29.6	17.2	7.4	3.4
Exports, Goods and Services	-0.7	5.7	5.1	2.5	2.0	2.0
Imports, Goods and Services	1.6	4.4	14.1	2.7	1.6	1.5

Real GDP growth, at constant factor prices (by sectors)	1.9	3.9	2.5	4.2	2.8	2.5
Agriculture	1.8	3.2	3.3	2.1	2.1	2.1
Industry	4.5	5.8	4.7	3.5	3.5	3.5
Services	0.7	3.1	1.3	4.9	2.6	2.1
Inflation (Consumer Price Index)	-0.7	1.5	-0.2	2.3	3.1	2.1
Current Account Balance (% of GDP)	-15.2	-13.3	-19.0	-19.6	-19.8	-18.7
Net Foreign Direct Investment (% of GDP)	10.2	17.1	9.8	12.1	12.2	11.8

Source: World Bank, Europe and Central Asia Economic Update, October 2017

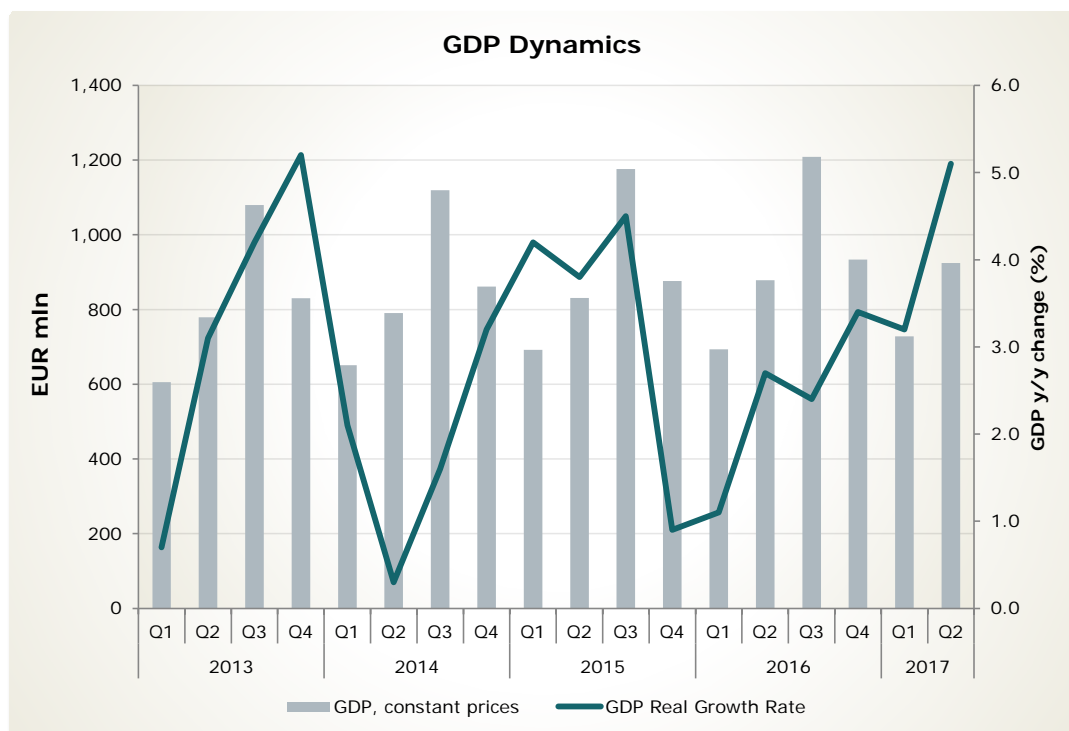
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth continues to be strong at 5.1% y/y in Q2 2017

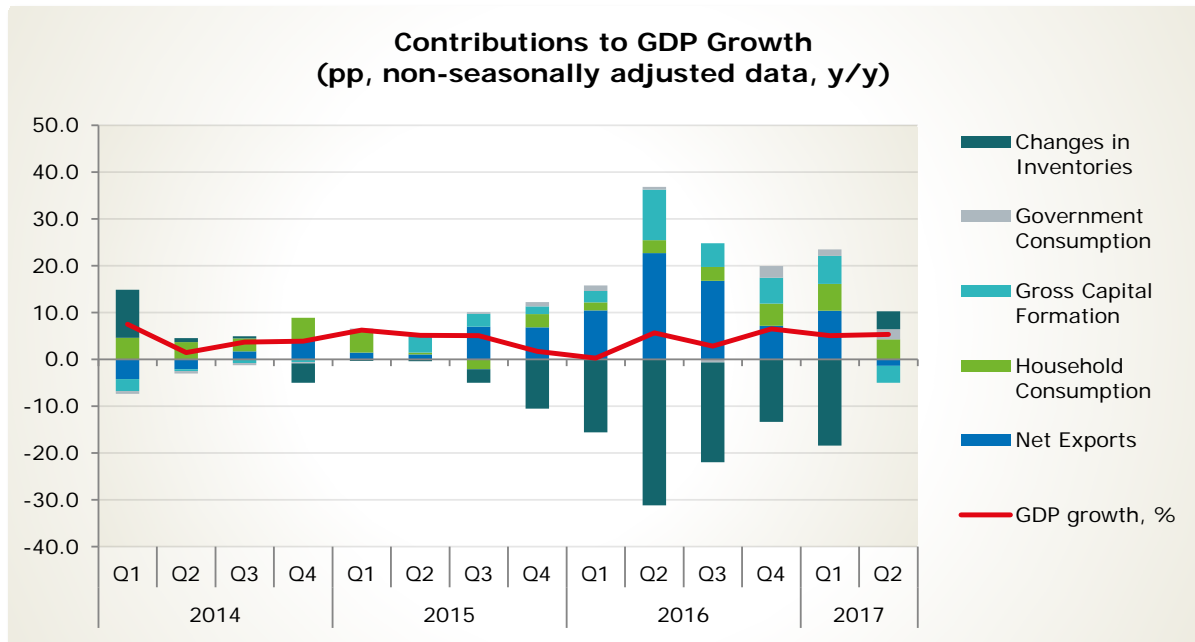
The economy of Montenegro continues to grow at strong rates during the second quarter of 2017. The country's real GDP annual growth was 5.1% in Q2 2017, after 3.2% y/y growth in Q1 2017, according to the Statistical Office of Montenegro (MONSTAT).

The GDP totalled EUR 924.7 mln in constant prices in Q2 2017, compared to EUR 878.3 mln in the same quarter of the previous year.



Source: MONSTAT

Final consumption increased in value terms by 6.0% on the year to EUR 969.4 mln in Q2 2017. Gross capital formation went down by 10.2% to EUR 279.6 mln. Exports grew by 1.8% on the year, while imports fell by 2.5% compared to Q2 2016.



Source: MONSTAT

2.2. INDUSTRIAL OUTPUT

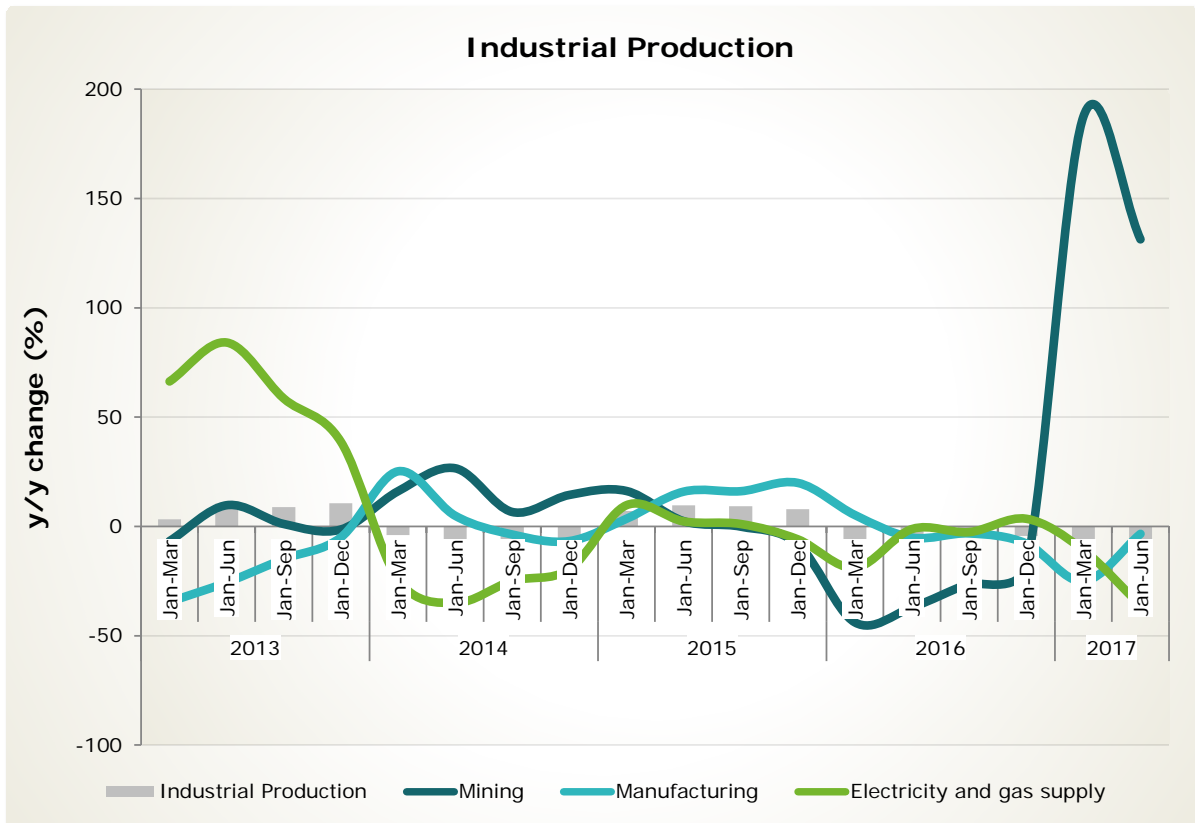
Industrial output down 9.6% y/y in January - June 2017

Industrial output went down by 9.6% on the year in January - June 2017, according to MONSTAT.

The overall fall was caused by the electricity and gas supply industry, which shrank by 36.1% on an annual basis, and the production at manufacturing industry, which fell by 3.4% y/y.

In the same time the mining sector more than doubled its production y/y in the first six months of 2017.

Printing and reproduction of recorded media plunged by 53.4% while the manufacture of fabricated metal products decreased by 21.2% y/y in January - June 2017. Manufacturing of paper and paper products went up by 65.0% y/y and the manufacturing of furniture surged by 63.2% y/y.



Source: MONSTAT

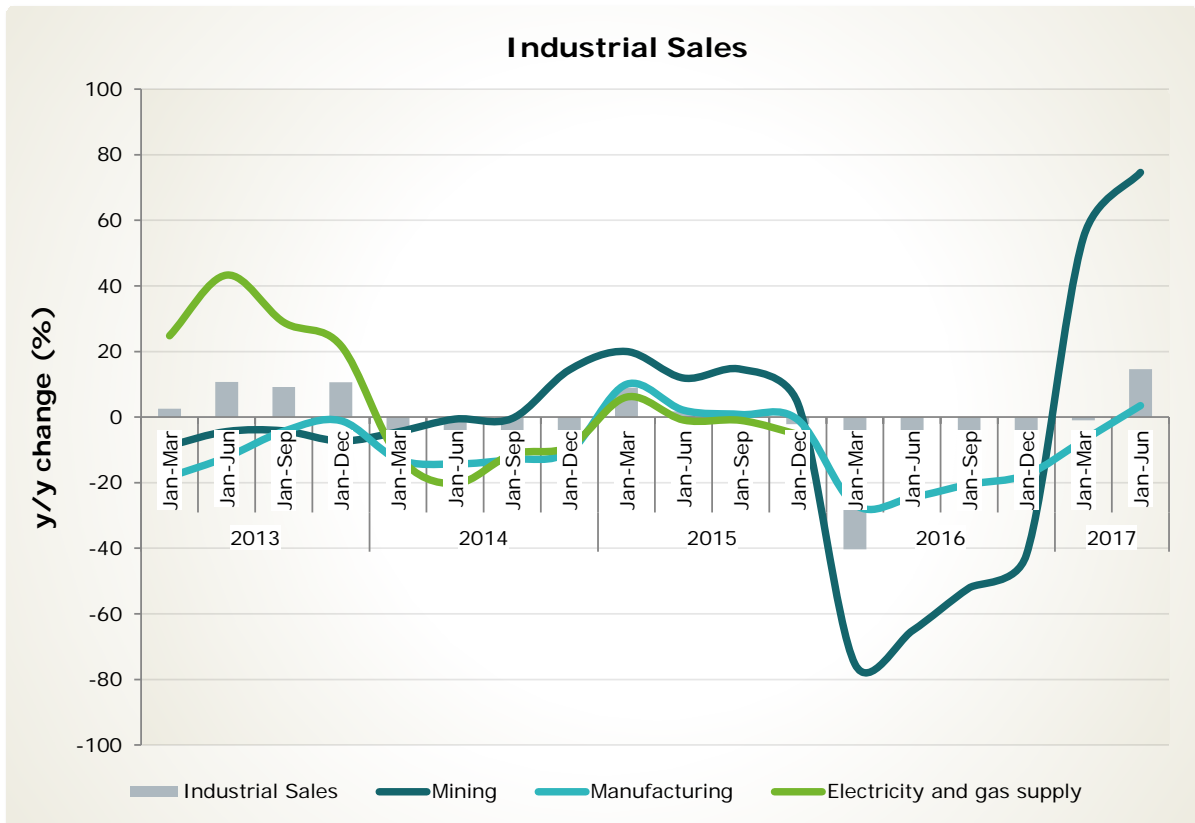
2.3. INDUSTRIAL SALES

Industrial sales increased by 14.6% y/y in January - June 2017

Industrial sales went up by 14.6% in the first half of 2017, according to MONSTAT. Domestic turnover increased by 2.4% y/y on average while the turnover on foreign markets went up by 26.8% y/y during the first six months of 2017.

The uptrend in the period under consideration was due to the 74.6% increase in the sales of the mining sector. On the other hand, manufacturing industry reported a 3.5% annual rise.

In terms of product groups, turnover from capital goods went down by 11.7% y/y, while turnover from non-durable consumer goods increased by 2.5% y/y. Energy related production turnover fell by 17.1% y/y. Consumer durables doubled their turnover in comparison to January – June 2016.



Source: MONSTAT

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

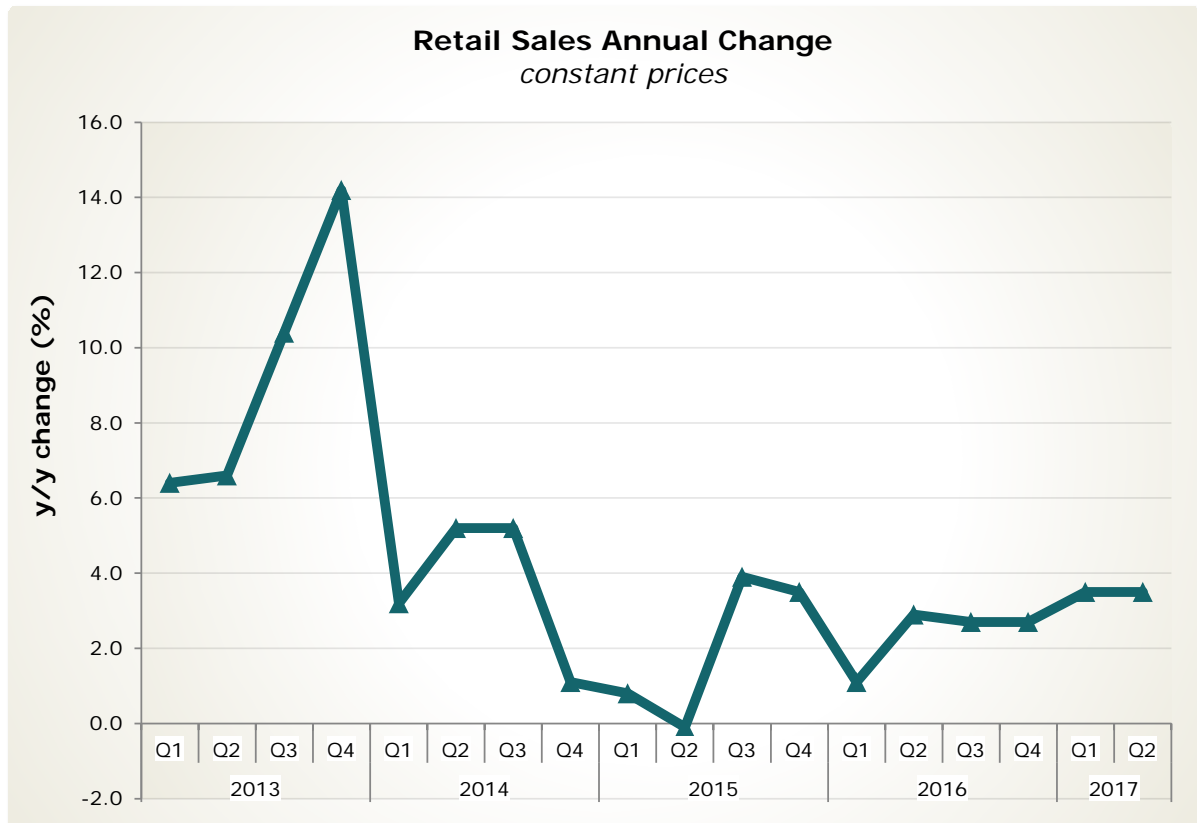
2.4. WHOLESALE/RETAIL

Retail sales grew 3.5% y/y in Q2 2017

Retail sales went up by 3.5% in constant prices in Q2 2017, 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.

Retail trade of food, drink and tobacco surged by 14.9% y/y in the quarter, while retail trade of automotive fuel jumped by 59.8% y/y.



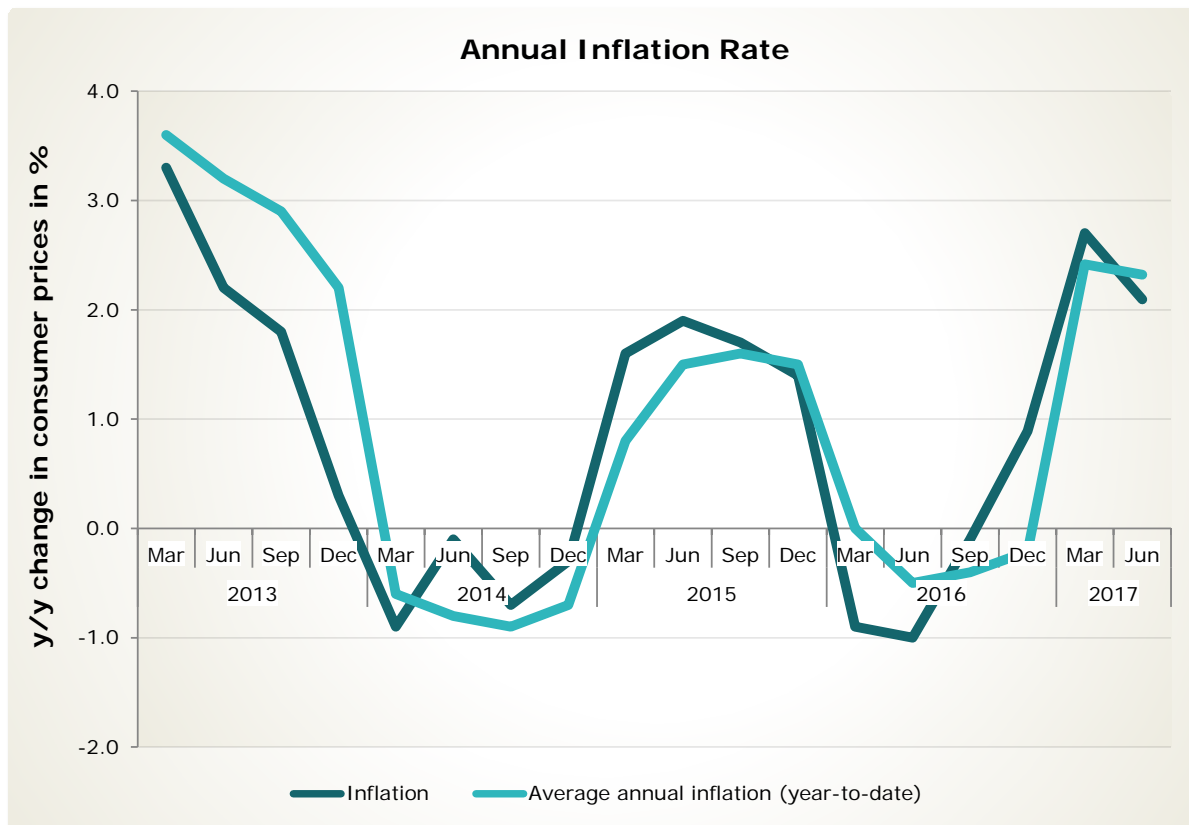
Source: MONSTAT

2.5. INFLATION

Average inflation of 2.3% y/y in January - June 2017

Montenegro registered an average annual inflation of 2.3% in the first half of 2017, according to MONSTAT data.

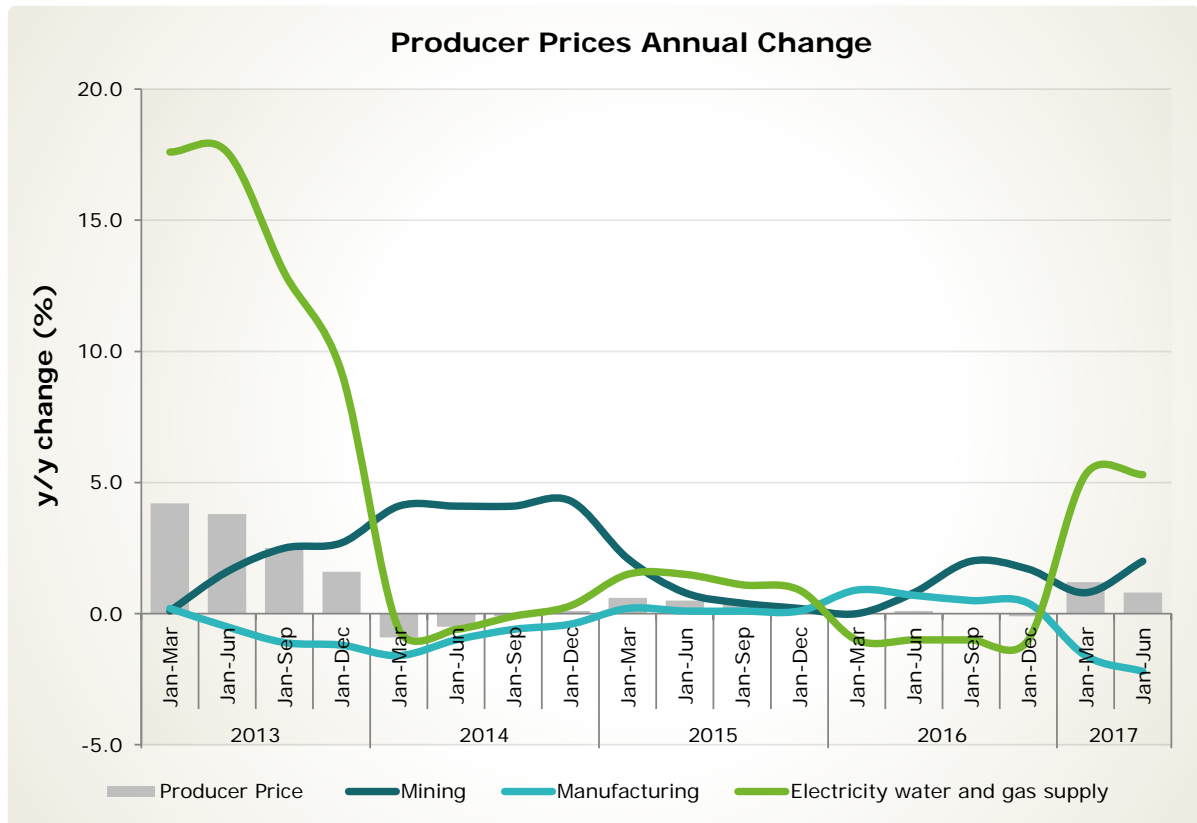
Segment wise, the highest annual increase in consumer prices, of 7.5%, was registered in transport, while furnishing, household equipment and routine household maintenance prices dropped the most – by 1.8%.



Source: MONSTAT

Producer prices inched up by 0.8% in January - June 2017, compared to the same period of the previous year. The electricity, gas and water supply sector registered an annual increase in producer prices of 5.3%, while producer prices in the manufacturing sector decreased by 2.2%.

Looking by segments, producer prices grew the most, by 6.4%, in the manufacturing of paper and paper products, while the sharpest decline, of 7.8%, was registered by manufacture of basic pharmaceutical products and preparations.



Source: MONSTAT

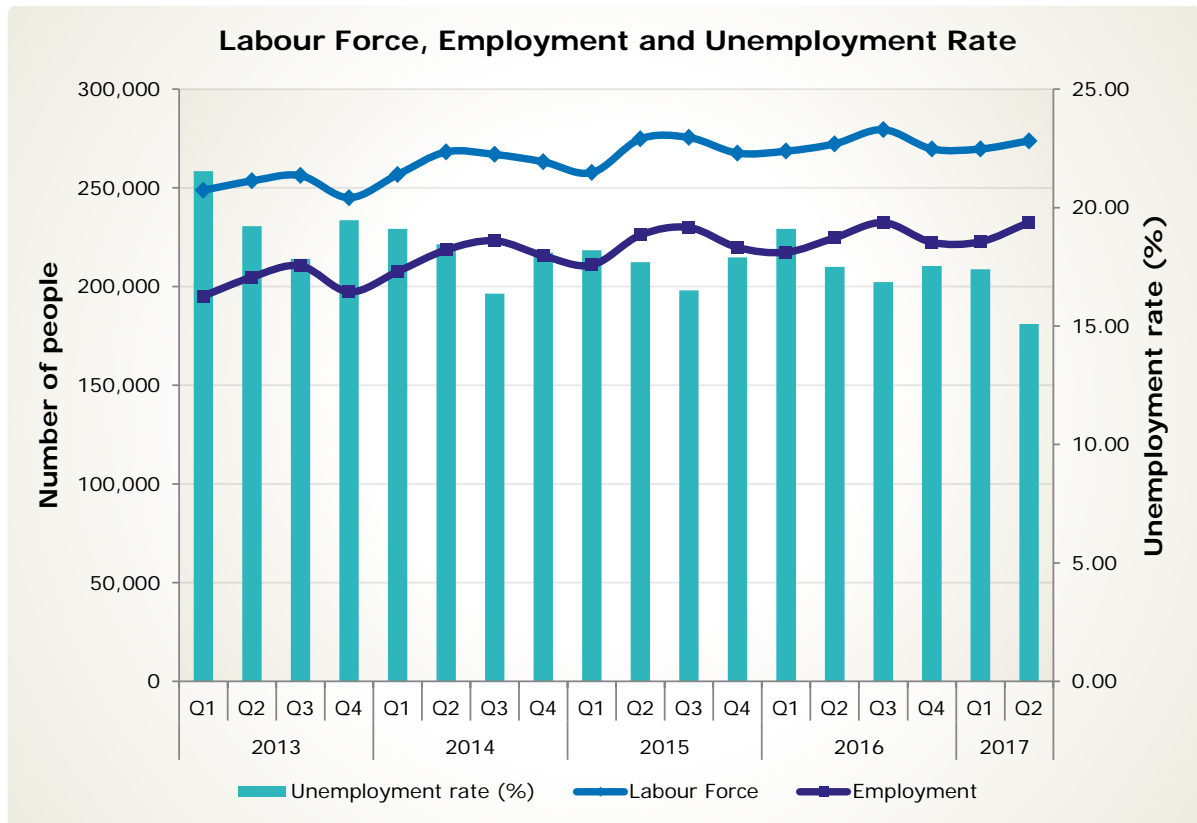
3. LABOUR MARKET

Unemployment rate at 15.1%, wages up 2.0% y/y in Q2 2017

Unemployment in Montenegro fell to 15.1% of the total labour force in Q2 2017 from 17.5% in Q2 2016, according to data of MONSTAT.

The employed population aged 15 years and older was 232,500 people in Q2 2017, up by 3.5% compared to the 224,700 a year earlier.

The youth (population aged 15-24) unemployment rate went down to 28.9% from 35.5%.



Source: MONSTAT

According to MONSTAT, the average monthly net salary in Q2 2017 increased by 2.0% y/y to EUR 510.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits fell by 1.1% y/y in Q2 2017

The number of building permits issued in Montenegro in Q2 2017 decreased by 1.1% y/y and totalled 264, according to MONSTAT data.

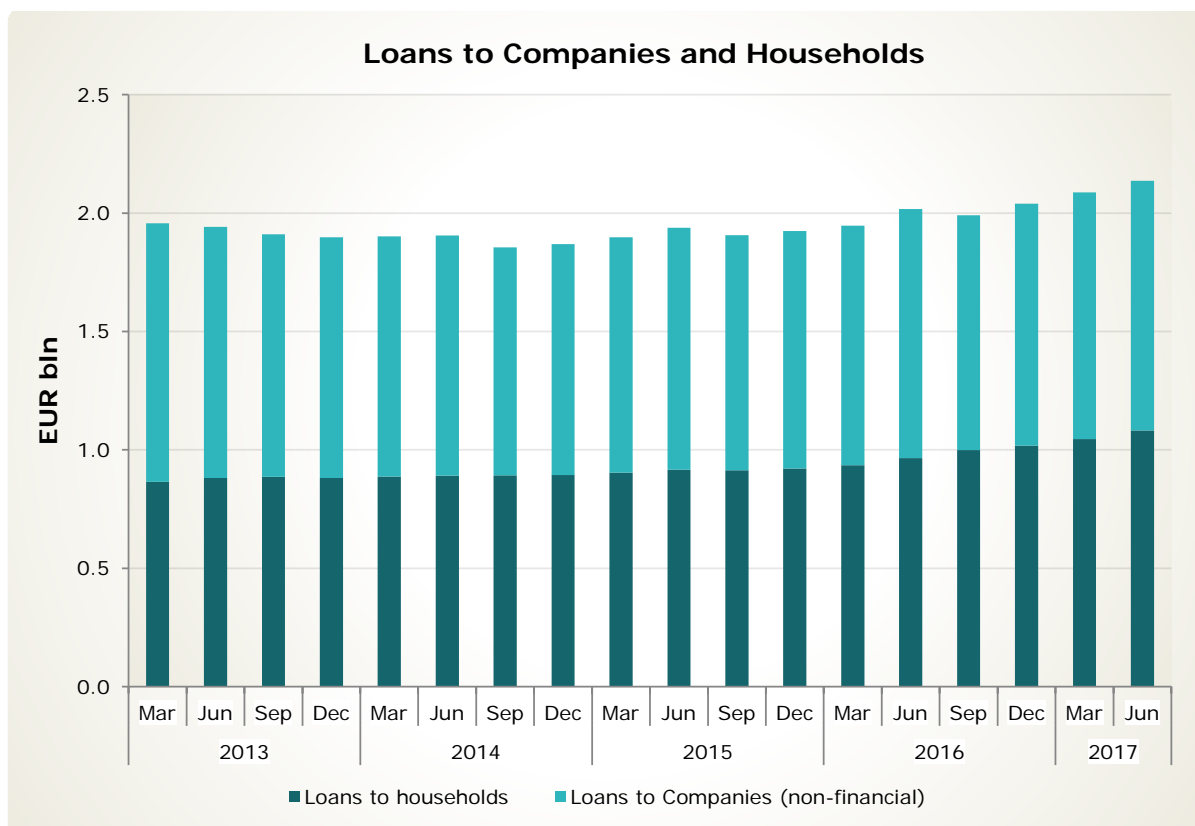
In line with the overall growth, the number of dwellings, covered by the permits, also decreased by 2.9% to 959 and their total built-up area scaled down to 65,432 sq m from 68,505 sq m.

5. BANKING AND INSURANCE

Household loans grew by 12.1% y/y at end-June 2017

Loans to the non-government and non-financial sector totalled EUR 2.136 bln as of June 2017, up by 5.9% y/y, according to Central bank of Montenegro (CBCG).

Household loans grew by 12.1% to EUR 1.082 bln, accounting for 50.1% of the total loans to the non-government and non-financial sector, while corporate loans inched up by 0.2% to EUR 1.054 bln, slicing a 49.9% share.

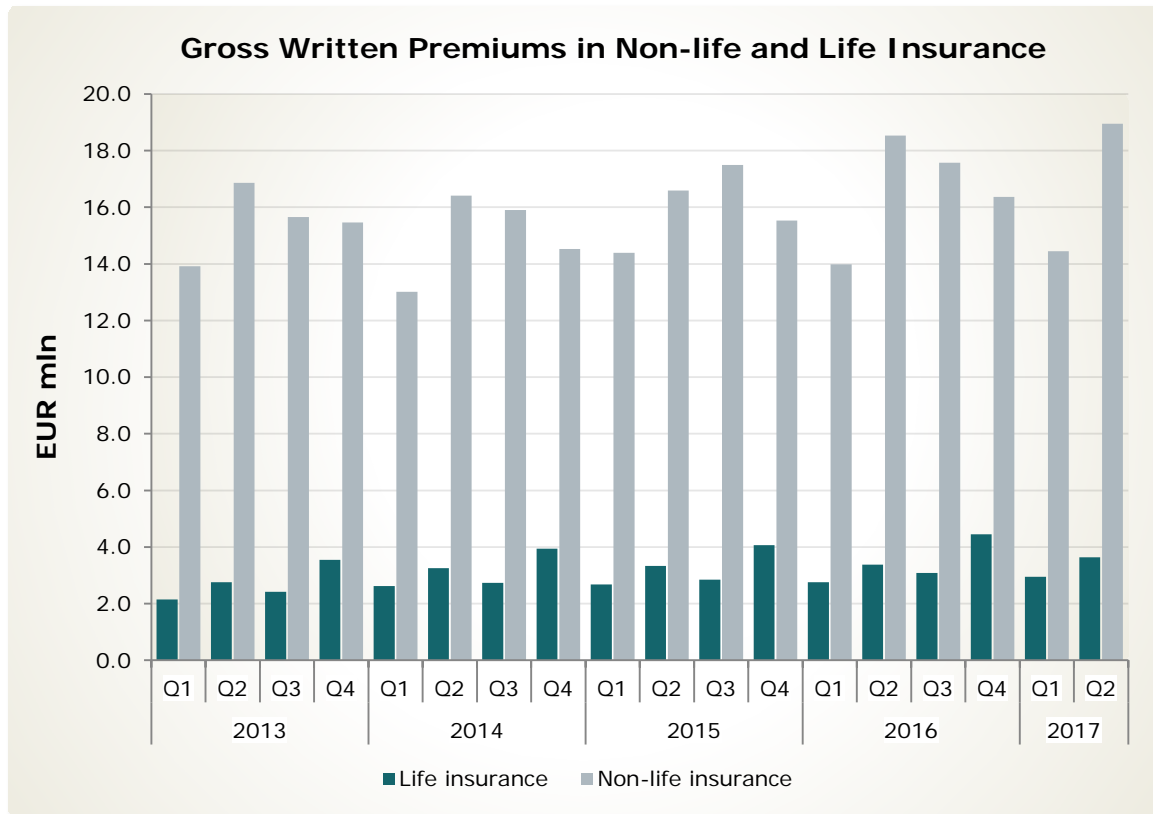


Source: CBCG

Insurance premiums went up 3.2% y/y in Q2 2017

The total gross written premiums of the Montenegrin non-life and life insurance companies stood at EUR 22.596 mln, up by 3.2% y/y, in Q2 2017, according to the country's Insurance Supervision Agency (ANO).

The premiums of the non-life insurance market stood at EUR 18.955 mln, or by 2.3% more than a year earlier, while the life insurance sector grew by 7.8% to EUR 3.641 mln.



Source: ANO

6. CAPITAL MARKETS

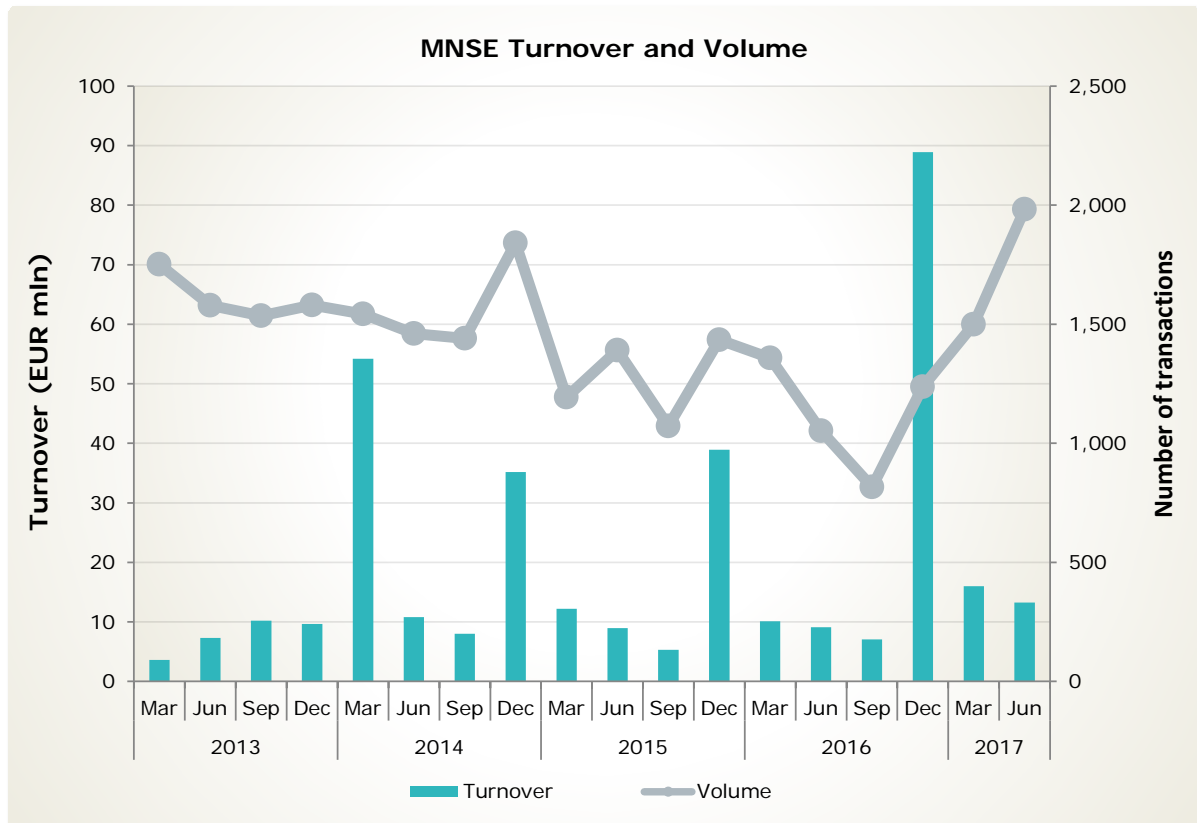
Blue-chip MNSE10* averaged 877 points in Q2 2017

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

In Q2 2017, the value of MNSE10, the blue-chip index of the Montenegro Stock Exchange (MNSE), averaged 877 points, down 6.1% y/y from 934 points in Q2 2016.

MNSE's market capitalization went up by 14.7% y/y to EUR 3.240 bln at end-June 2017.

The total turnover on the bourse jumped to EUR 13.2 mln in Q2 2017 from EUR 9.1 mln a year earlier.



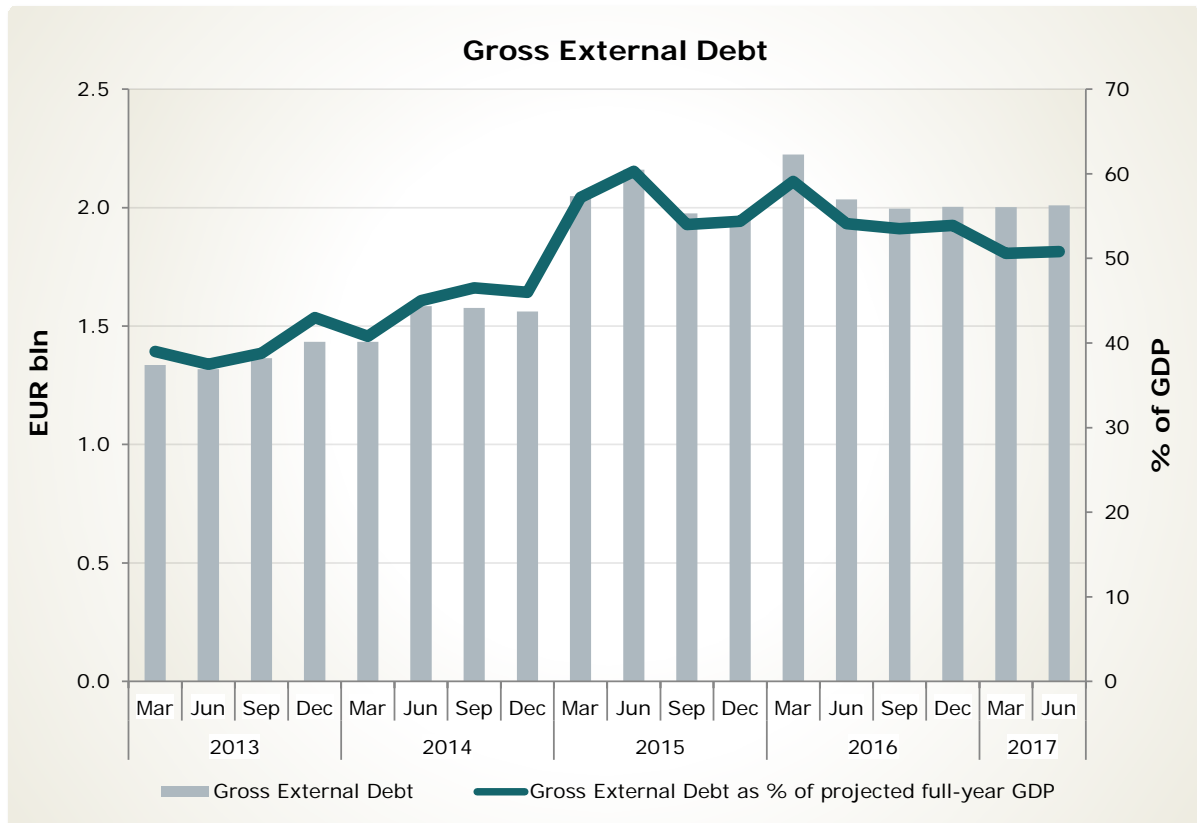
Source: MNSE

7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt decreased annually to EUR 2.009 bln at end-June 2017

The gross external debt decreased to EUR 2.009 bln at the end of June 2017, down by 1.3% or EUR 25.7 mln, compared to a year earlier, according to CBCG. The gross external debt accounted for 50.8% of the projected full-year GDP.



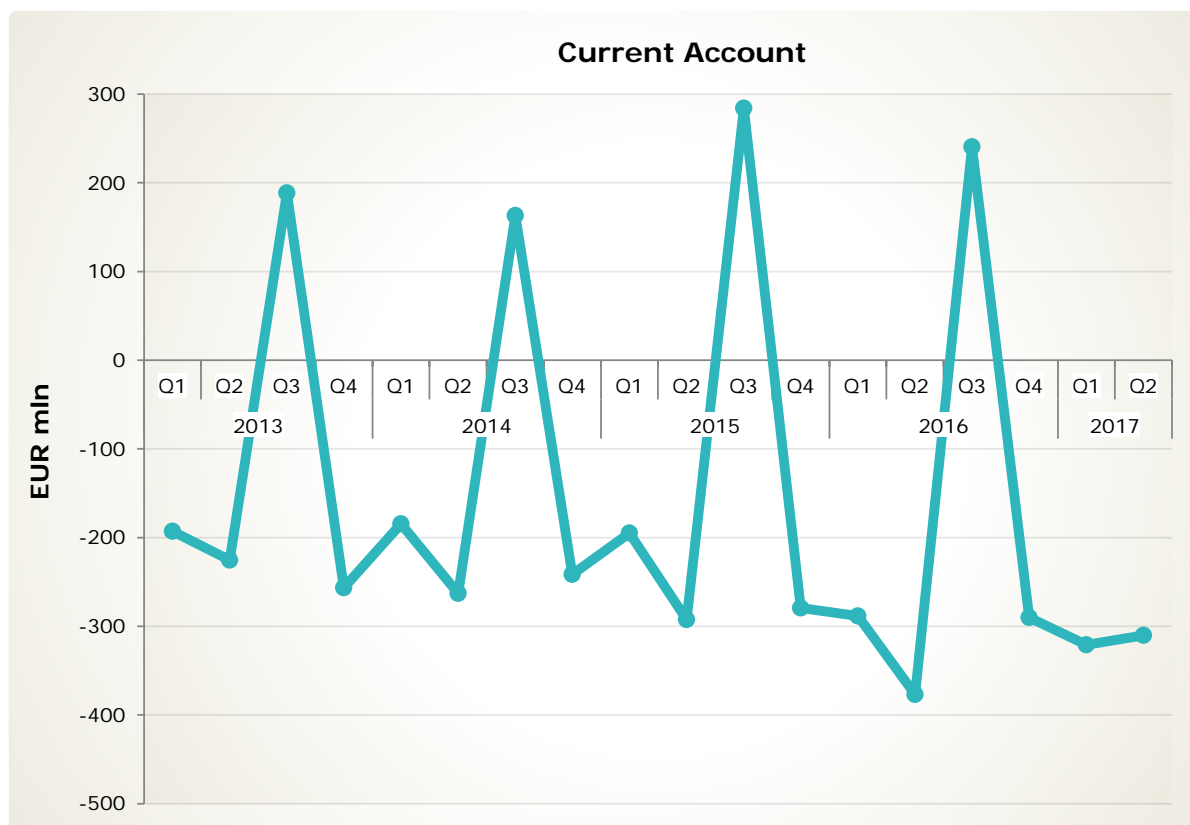
Source: CBCG

7.2. BALANCE OF PAYMENTS

Current account deficit at EUR 310.2 mln in Q2 2017

The current account deficit narrowed to EUR 310.2 mln in Q2 2017 from EUR 377.0 mln in Q2 2016, according to central bank statistics data.

Secondary income went up to EUR 33.9 mln compared to EUR 25.3 mln in Q2 2016.



Source: CBCG

7.3. FDI

Net FDI inflow at EUR 125.6 mln in Q2 2017

During the second quarter of 2017, net FDI in Montenegro amounted EUR 125.6 mln, according to CBCG data. This is more than two times the net FDI inflow of EUR 60.4 mln in Q2 2016.

The FDIs covered more than a third of the current account deficit of the country in Q2 2017.

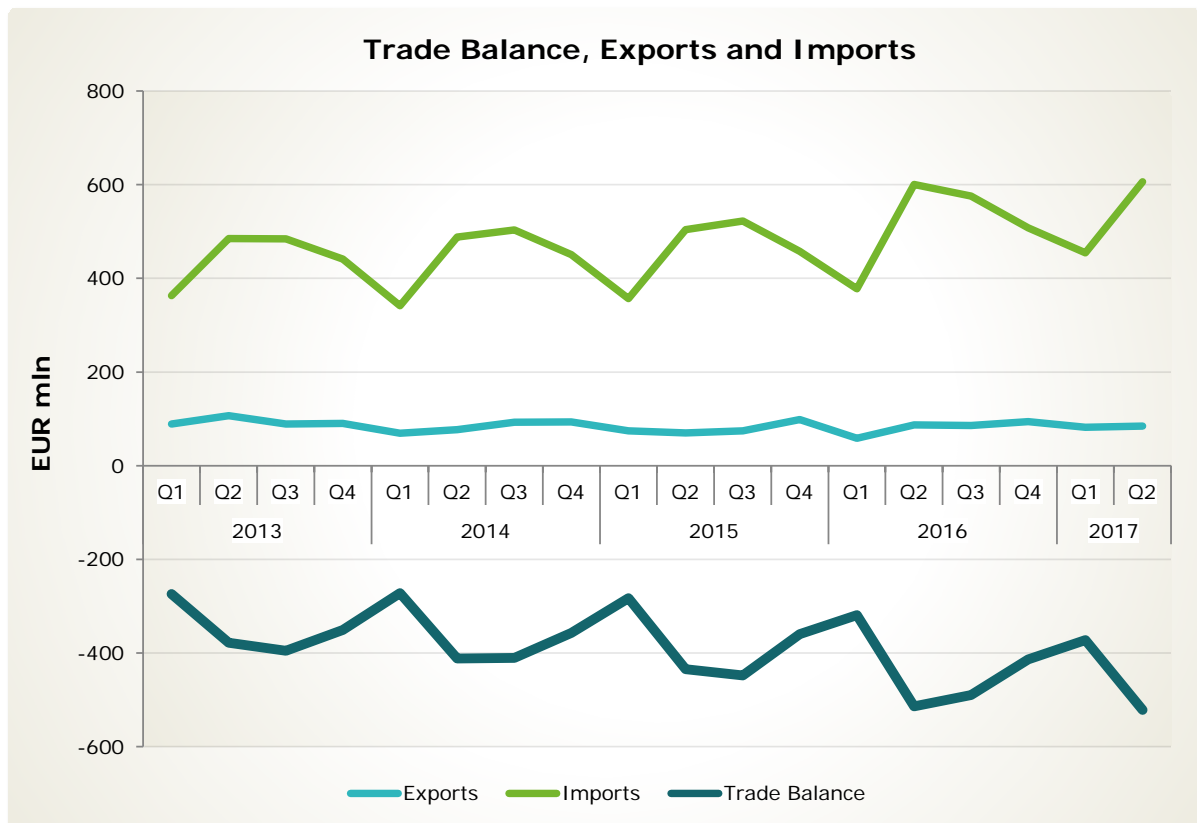
7.4. FOREIGN TRADE

Foreign trade deficit grew by 1.5% y/y in Q2 2017

The trade deficit stood at EUR 521.4 mln in the second quarter of 2017, up 1.5% y/y, according to CBCG.

Exports decreased by 2.8% y/y to EUR 84.6 mln, while imports went up by 0.9% y/y to EUR 606.0 mln. The coverage of imports by exports was 14.0%, slightly lower compared to the coverage for the same period of previous year - 14.5%.

Main trading partners in exports were Serbia - EUR 30.0 mln, Bosnia and Herzegovina - EUR 22.0 mln and Hungary - EUR 16.5 mln. Main trading partners in imports were Serbia - EUR 229.6 mln, Germany - EUR 91.1 mln and Italy - EUR 77.2 mln.



Source: MONSTAT

7.5. TOURSIM

Number of foreign tourist overnights increased by 18.9% y/y in Q2 2017

Tourist overnights of foreigners soared by an annual 18.9% to 921,556 in the second quarter of 2017, according to MONSTAT.



Source: MONSTAT

8. MAJOR DEVELOPMENTS

EBRD lends 41 mln euro to Montenegro for road reconstruction

June 28, 2017

The European Bank for Reconstruction and Development (EBRD) said it is lending EUR 41 mln (USD 46.6 mln) to Montenegro's Ministry of Transport and Maritime Affairs for road reconstruction.

[Read the full story here](#)

Montenegro opens two more chapters in EU accession talks, closes one

June 21, 2017

The European Commission (EC) said Montenegro has opened two chapters in its membership negotiations with the EU and has provisionally closed talks on one during the Montenegro-EU Intergovernmental Accession Conference in Luxembourg on Tuesday.

[Read the full story here](#)

EIF signs guarantee deal to back micro-borrowers in Montenegro

June 13, 2017

The European Investment Fund (EIF) said it has signed a guarantee agreement with Montenegrin lender Crnogorska Komercijalna Banka (CKB) to provide 5 million euro (\$5.6 million) to 700 Montenegrin micro-borrowers in the country.

[Read the full story here](#)

Montenegro joins NATO as 29th ally

June 6, 2017

Montenegro became the newest member of the North Atlantic Treaty Organization (NATO) on Monday, upon depositing its instrument of accession with the US State Department in Washington DC, the Alliance said.

[Read the full story here](#)

IFC eyes Montenegrin tourism, infrastructure, agriculture sectors

Apr 24, 2017

Montenegro's central bank, CBCG, said the International Finance Corporation (IFC) shows interest in investments in sustainable tourism, infrastructure and agribusiness in Montenegro, as well as in providing technical assistance for the development of public-private partnerships.

[Read the full story here](#)

IMF to support supervision of Montenegrin banks, insurers - c-bank

Apr 24, 2017

The International Monetary Fund (IMF) has pledged to provide technical support for the supervision of banks and insurance companies in Montenegro, the country's central bank, CBCG, said on Monday.

[Read the full story here](#)

S&P affirms Montenegro at 'B+/B', outlook negative

Apr 7, 2017

Standard & Poor's said on Friday it has affirmed its 'B+' long-term and 'B' short-term foreign and local currency sovereign credit ratings on Montenegro, with a negative outlook.

[Read the full story here](#)

Montenegrin govt approves 80 mln euro Credit Suisse loan to finance budget deficit

Apr 7, 2017

Montenegro's government said it has approved the borrowing of EUR 80 mln (USD 85.1 mln) from Credit Suisse, London Branch to finance budget spending in 2017.

[Read the full story here](#)

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