

MONTENEGRO ECONOMY REPORT

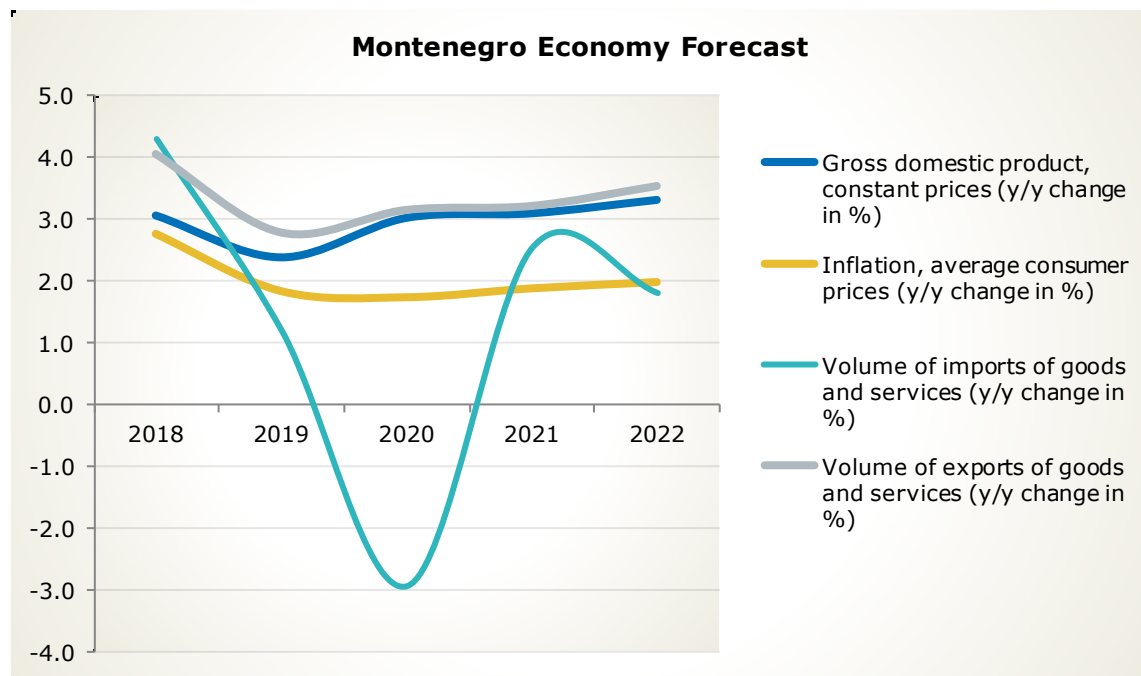
Q2 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

MONTENEGRO – MACROECONOMIC SNAPSHOT AS OF Q2 2018	
GDP Growth	4.9% y/y
Industrial output	31.6% y/y
Industrial sales	27.4% y/y
Retail sales	4.4% y/y
Average annual inflation	3.0%
Unemployment rate	14.4%
Number of building permits	-61.4% y/y
Household loans	10.4% y/y
MNSE10 blue-chip index	-1.2% q/q
Gross External Debt	EUR 2.644 bln
Current account deficit	EUR 308.4 mln
FDI inflow	EUR 102.8 mln
Foreign trade deficit	EUR 597.0 mln
Number of foreign tourist overnights	12.7% y/y



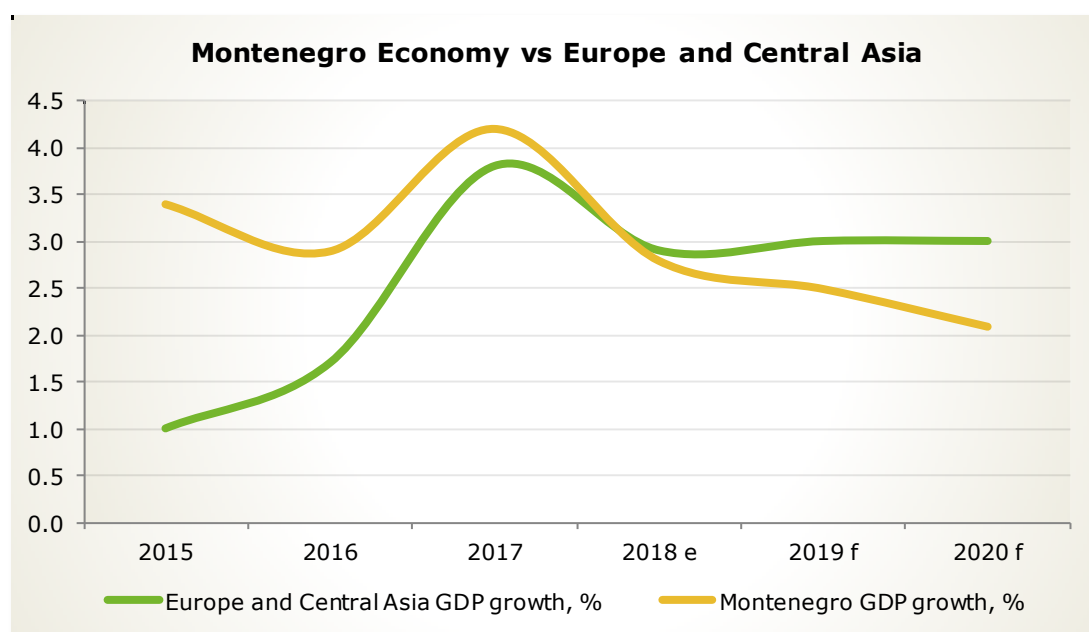
Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2018

IMF expects the economy of Montenegro to expand by 2.5% in 2019, down from 3.7% in 2018 and 4.3% 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 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.

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.

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.



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

Montenegro – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)							
	2015	2016	2017 e	2018 f	2019 f	2020 f	
Real GDP growth, at constant market prices, y/y change in %	3.4	2.9	4.3	2.8	2.5	2.1	
Private Consumption	2.2	5.4	4.2	2.1	3.3	3.6	
Government Consumption	1.9	0.8	1.3	-3.6	-1.9	1.9	
Gross Fixed Capital Investment	11.9	27.5	15.8	9.0	1.7	-3.2	
Exports, Goods and Services	5.7	6.2	4.1	4.3	5.5	6.1	
Imports, Goods and Services	4.4	15.0	8.2	4.0	3.5	3.3	
Real GDP growth, at constant factor prices (by sectors)	3.8	2.9	4.3	2.8	2.5	2.1	
Agriculture	2.1	3.9	5.1	2.1	2.1	2.1	
Industry	3.3	25.8	-2.2	3.0	3.2	3.5	
Services	4.8	-20.6	14.6	2.8	1.7	0.2	
Inflation (Consumer Price Index)	1.5	-0.3	2.4	3.1	2.1	1.6	
Current Account Balance (% of GDP)	-13.2	-18.1	-18.9	-18.5	-17.9	-17.3	
Net Foreign Direct Investment (% of GDP)	16.9	9.4	11.4	11.3	10.9	9.3	

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

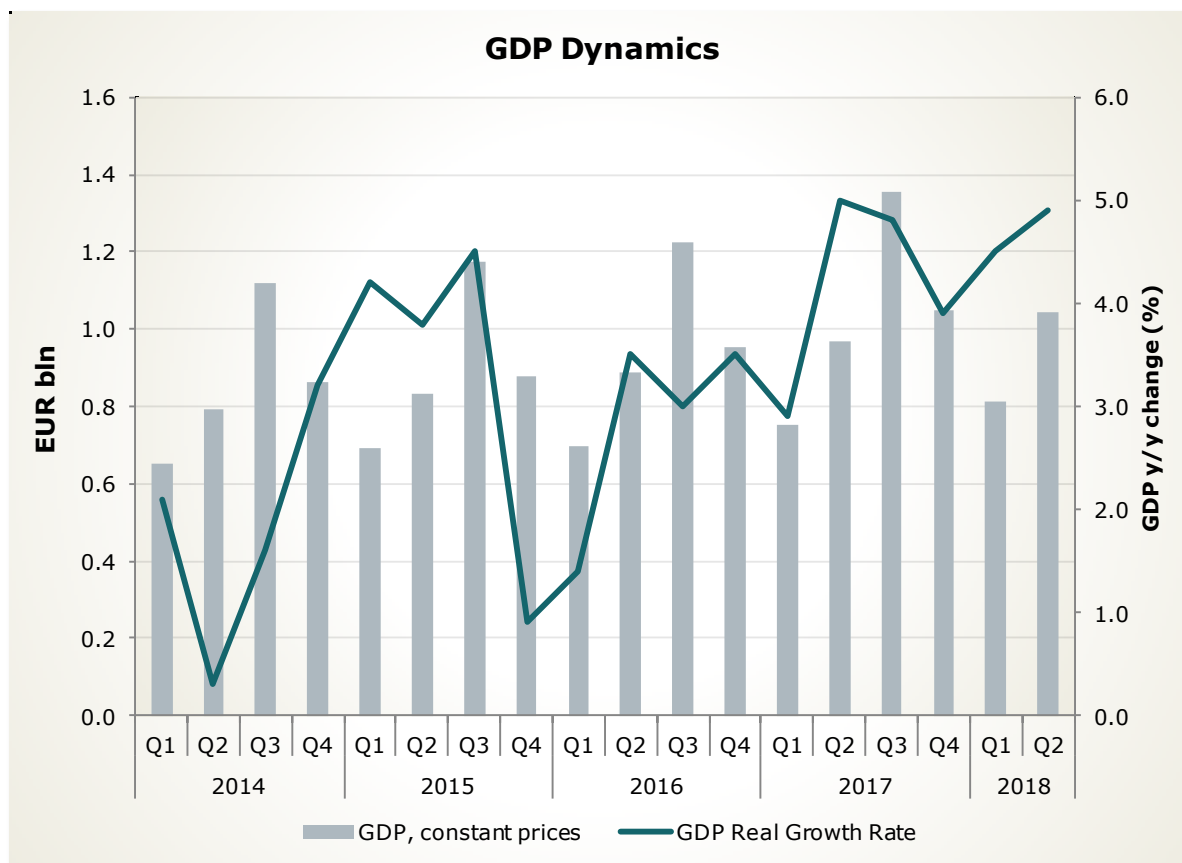
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth continues to be strong at 4.9% y/y in Q2 2018

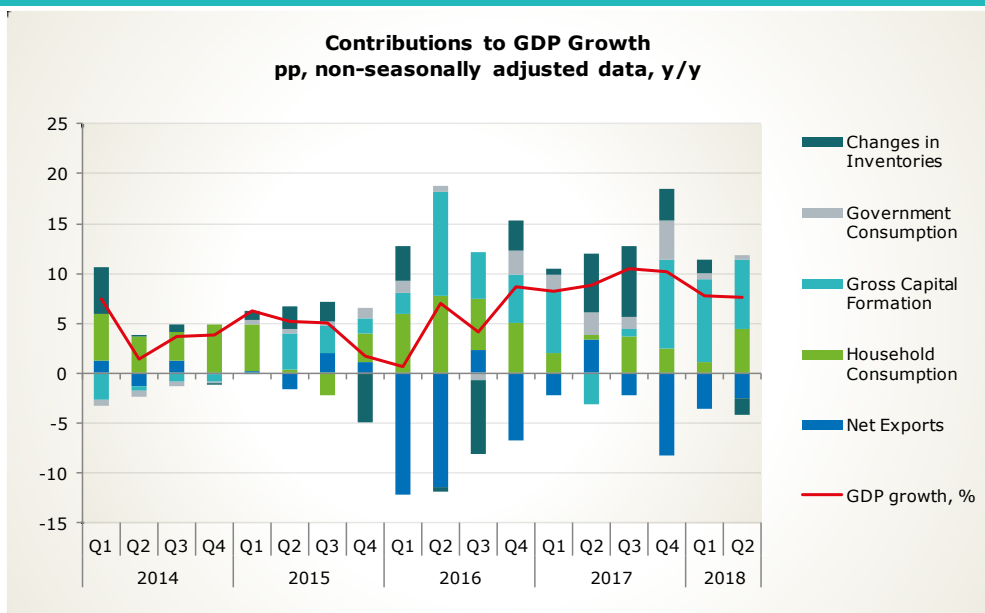
The economy of Montenegro continues to grow at strong rates during the second quarter of 2018. The country's real GDP annual growth was 4.9% in Q2 2018 and 4.5% y/y growth in Q1 2018, according to the Statistical Office of Montenegro (MONSTAT).

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 1.042 bln in constant prices in Q2 2018, compared to EUR 967.7 mln in the same quarter of the previous year.



Source: MONSTAT

Final consumption increased in value terms by 5.0% on the year to EUR 1.029 bln in Q2 2018. Gross capital formation went up by 24.5% to EUR 348.1 bln. Exports grew by 24.2% on the year, and imports - by 15.5%.



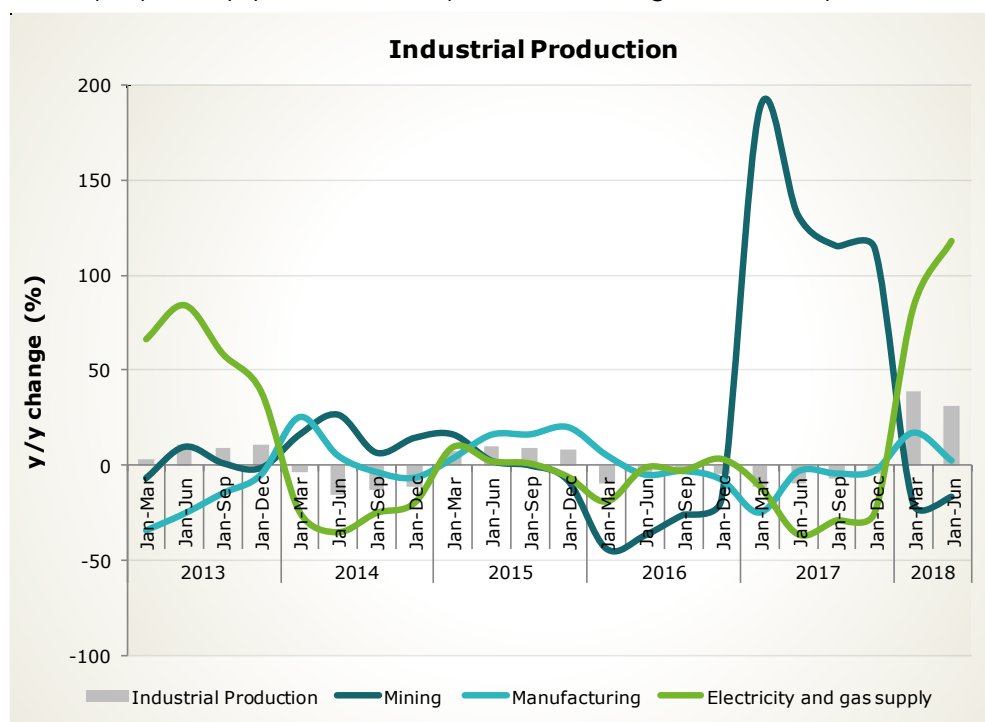
Source: MONSTAT

2.2. INDUSTRIAL OUTPUT

Industrial output surged by 31.6% y/y in H1 2018

Industrial output jumped by 31.6% on the year in the first half of 2018, according to MONSTAT.

The surge was thanks to the electricity and gas supply industry where the output more than doubled in comparison to the same period a year ago. The production of the manufacturing industry went up by 2.3% y/y, while the output of the mining sector fell by 16.6%.



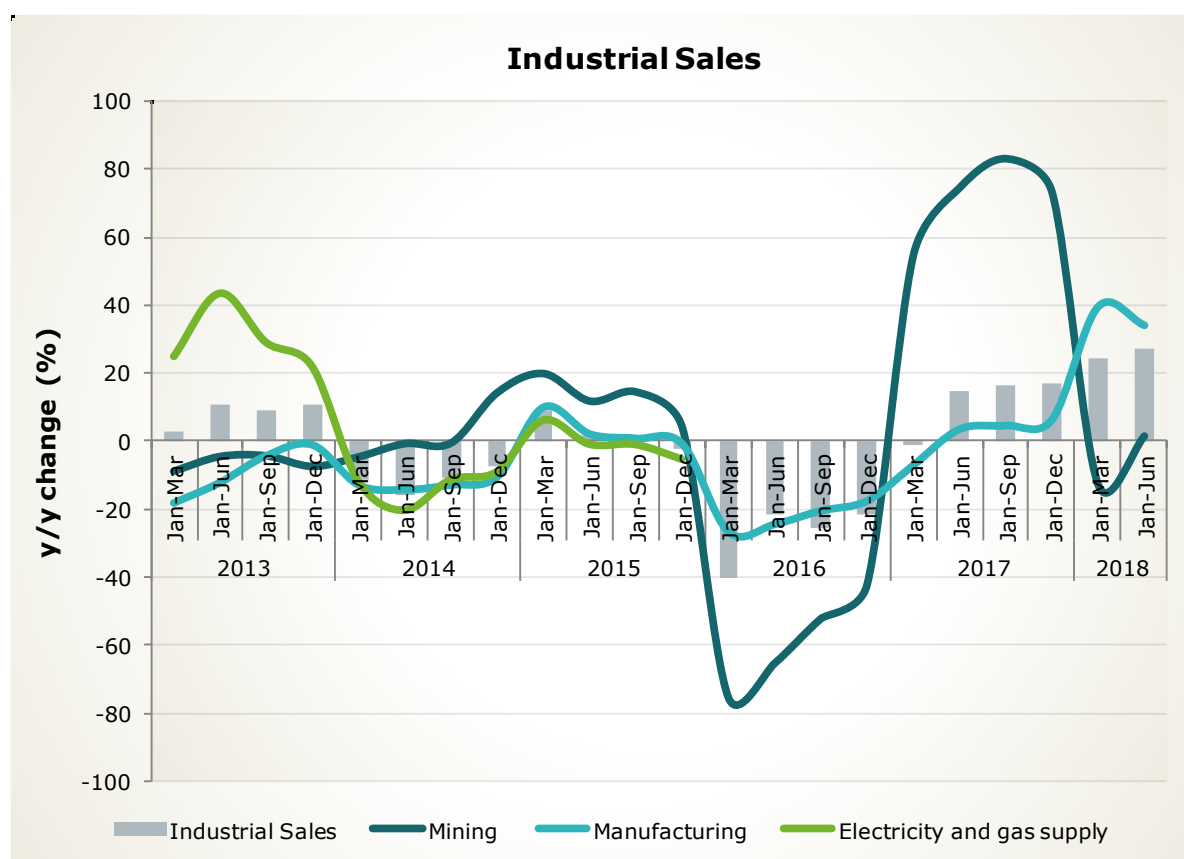
Source: MONSTAT

2.3. INDUSTRIAL SALES

Industrial sales increased by 27.4% y/y in H1 2018

Industrial sales went up by 27.4% y/y in the first six months of 2018, according to MONSTAT.

The uptrend in the period under consideration was mainly due to the 34.1% y/y increase in the sales of the manufacturing industry. Sales of the mining sector rose by 1.6% y/y.



Source: MONSTAT

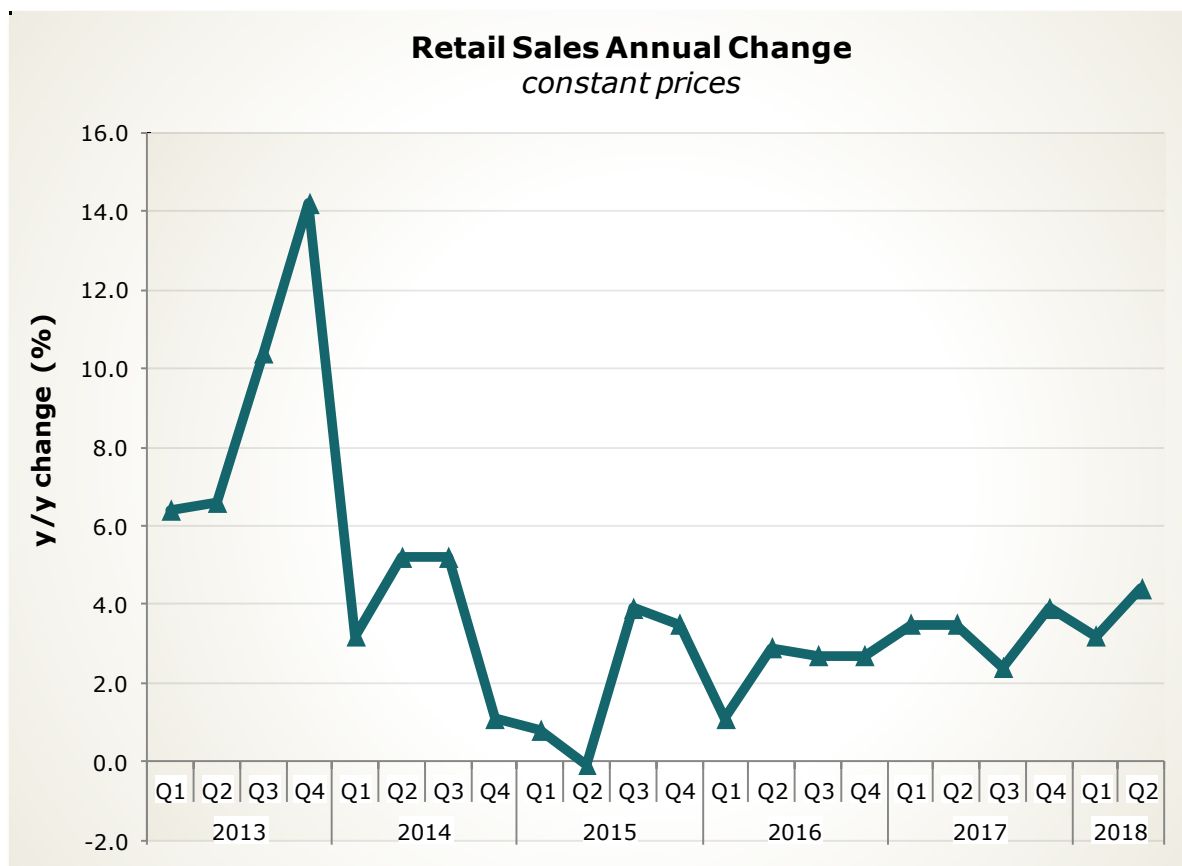
Editor's note: Data for electricity and gas supply sales was not available after 2015.

2.4. WHOLESALE/RETAIL

Retail sales grew 4.4% y/y in Q2 2018

Retail sales went up by 4.4% in constant prices in Q2 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 4.6%. The retail trade without retail trade of motor fuels grew by 3.1%, while retail sale of automotive fuel in specialised stores experienced a 3.7% annual rise.



Source: MONSTAT

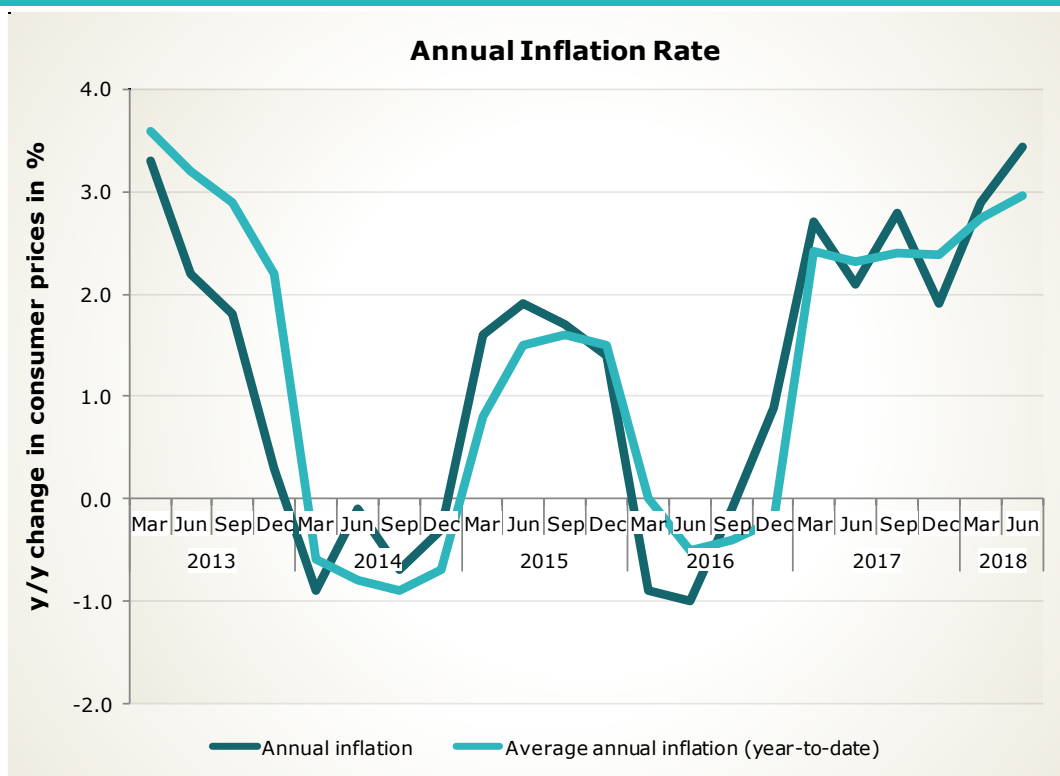
2.5. INFLATION

Average annual inflation at 3.0% y/y in Q2 2018

Montenegro registered an average annual inflation of 3.0% in Q2 2018, according to MONSTAT data. In June 2018 alone, the inflation was higher – 3.4%, up from 2.9% in March 2018.

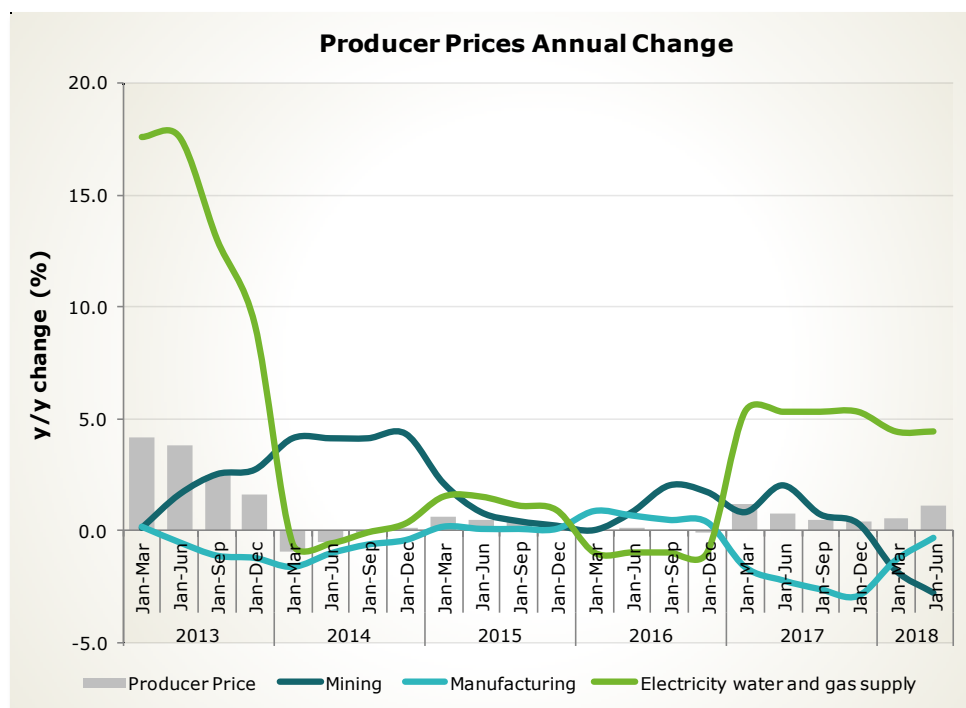
Segment wise, the highest annual increase in consumer prices, of 28.8%, was registered in alcoholic beverages and tobacco, while the group of clothing and footwear saw inflation of 6.8%. Inflation in the restaurants and hotels sector was the third largest – 6.3%.

A deflation was registered only in two sectors – recreation and culture, and food and non-alcoholic beverages, where prices inched down by 0.2% on the year in the first half of 2018.



Source: MONSTAT

Producer prices inched up by 1.1% in Q2 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 0.3%. The mining sector saw producer price decrease of 2.8%.



Source: MONSTAT

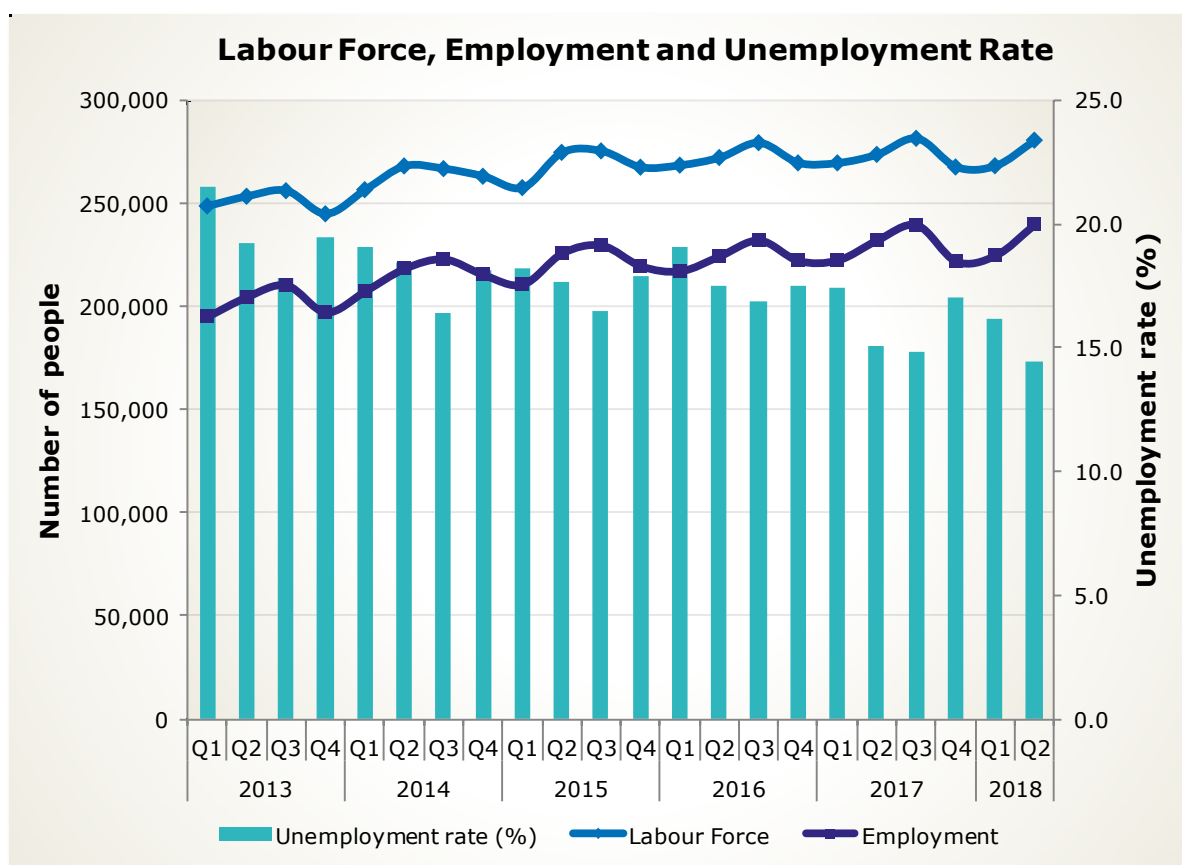
3. LABOUR MARKET

Unemployment rate at 14.4%, wages unchanged y/y in Q2 2018

Unemployment in Montenegro eased to 14.4% of the total labour force in Q2 2018, down from 16.1% in Q1 2018 and 15.1% in Q2 2017, according to data of MONSTAT.

The employed population aged 15 years and older was 240,200 people in Q2 2018, up by 3.3% compared to the 232,500 people a year earlier.

The youth (population aged 15-24) unemployment rate went down to 23.9% y/y from 28.9% in Q2 201.



Source: MONSTAT

According to MONSTAT, the average monthly net salary in Q1 2018 remained unchanged, at EUR 510, compared to a year ago.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits down by 61.4% y/y in Q2 2018

The number of building permits issued in Montenegro in Q2 2018 dropped by 61.4% y/y and totalled 102, according to MONSTAT data.

The number of dwellings, covered by the permits, fell to 733 from 959 and their total built-up area slumped to 41,611 sq m from 65,432 sq m.

5. BANKING AND INSURANCE

Household loans grew by 10.4% y/y at end-June 2018

Loans to the non-government and non-financial sector totalled EUR 2.232 bln as of June 2018, up from EUR 2.058 bln in June 2018, according to Central bank of Montenegro (CBCG).

Household loans grew by 10.4% to EUR 1.189 bln, accounting for 53.3% of the total loans to the non-government and non-financial sector, while corporate loans went up by 6.3% to EUR 1.043 bln, slicing a 46.7% share.

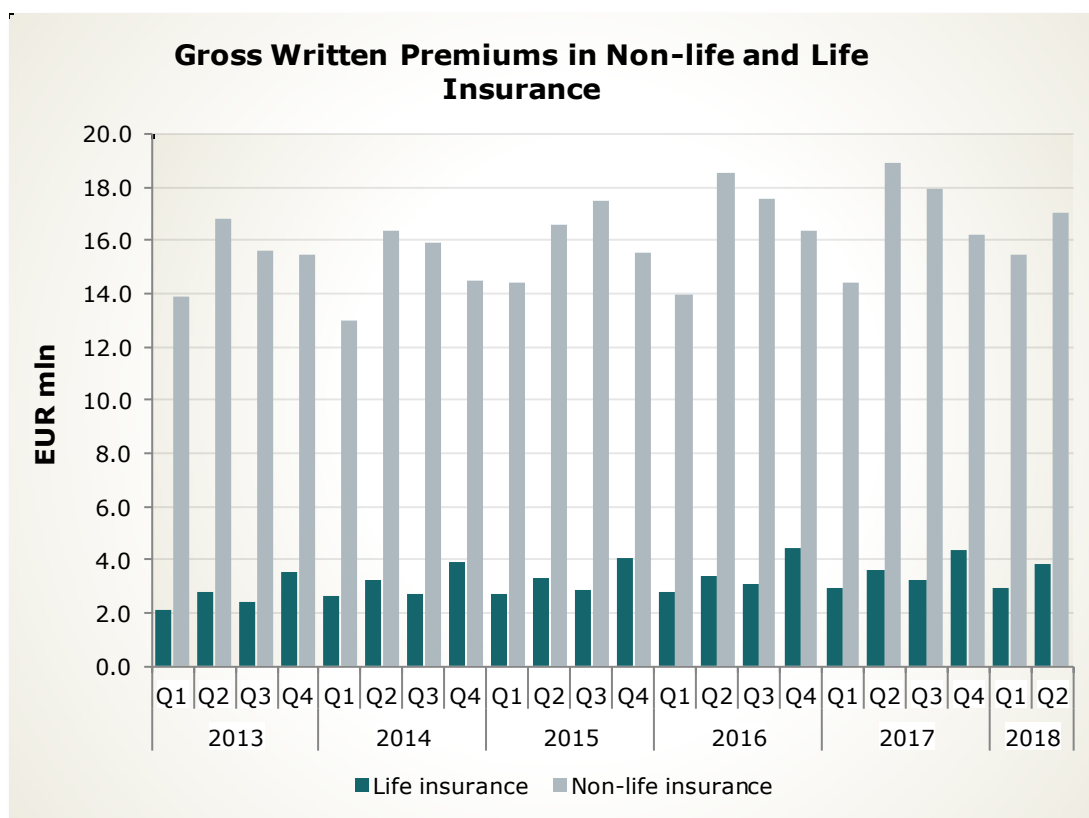


Source: CBCG

Insurance premiums fell by 7.6% in Q2 2018

The total gross written premiums of the Montenegrin non-life and life insurance companies stood at EUR 20.873 mln, down by 7.6% y/y, in Q2 2018, according to the country's Insurance Supervision Agency (ANO).

The premiums of the non-life insurance market stood at EUR 17.065 mln, or by 10.0% less than a year earlier, while the life insurance sector grew by 4.6% to EUR 3.808 mln.



Source: ANO

6. CAPITAL MARKETS

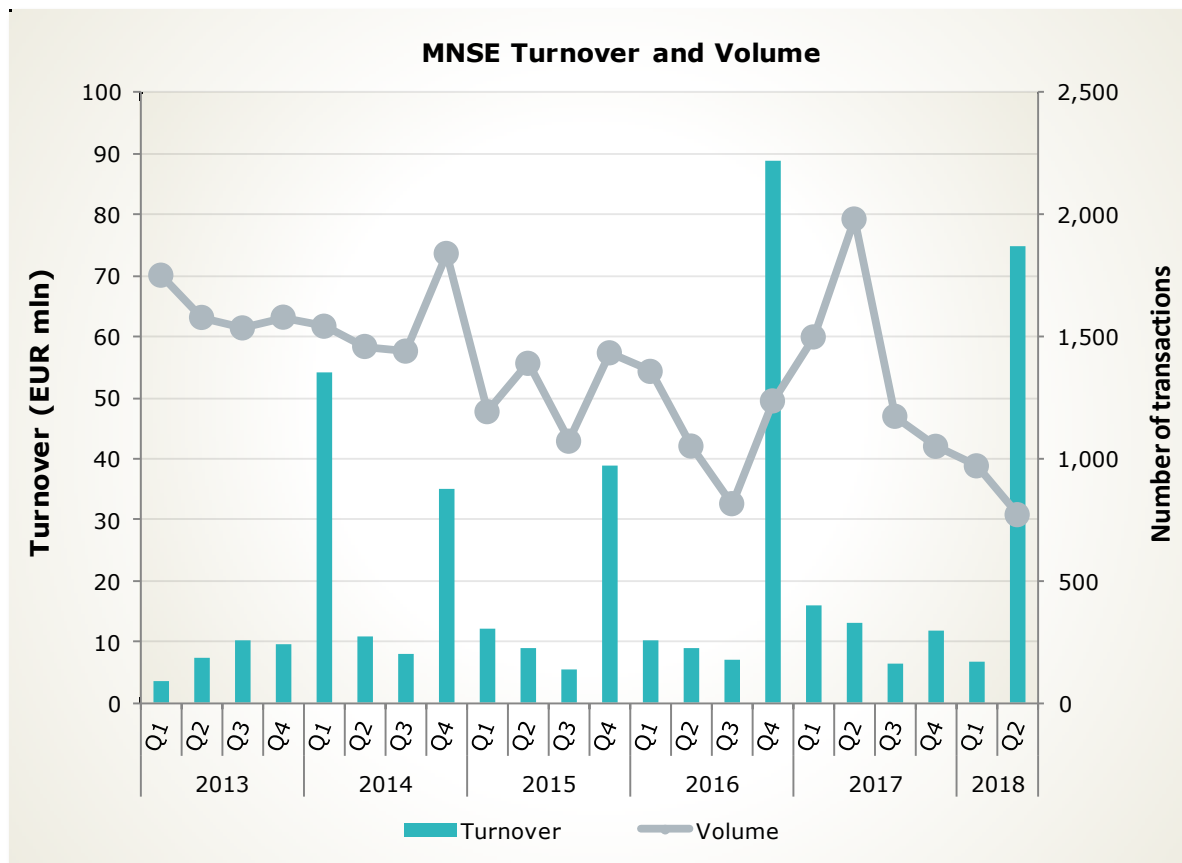
Blue-chip MNSE10* averaged 783 points in Q2 2018

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

In Q2 2018, the value of MNSE10, the blue-chip index of the Montenegro Stock Exchange (MNSE), averaged 783 points, down 1.2% y/y from 792 points in Q1 2018.

MNSE's market capitalization went up by 2.6% to EUR 3.012 bln at end-June 2018 in comparison to March 2018.

The total turnover on the bourse surged to EUR 74.907 mln in Q2 2018 from EUR 6.874 mln in the previous quarter.



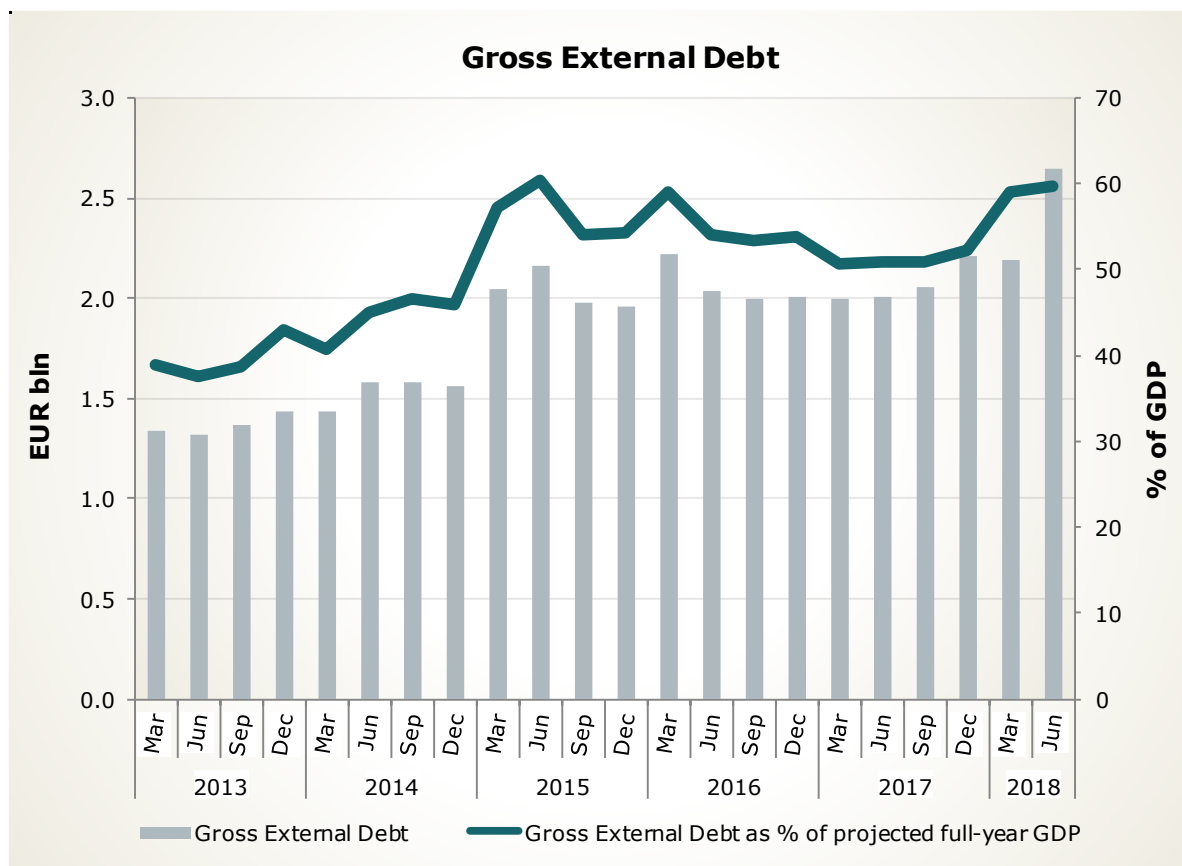
Source: MNSE

7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt increased annually to EUR 2.644 bln in June 2018

The gross external debt expanded to EUR 2.644 bln at June 2018, up by 31.6% y/y, according to CBCG. The gross external debt accounted for 59.7% of the GDP in Q2 2018, up from 50.8% in Q2 2017.



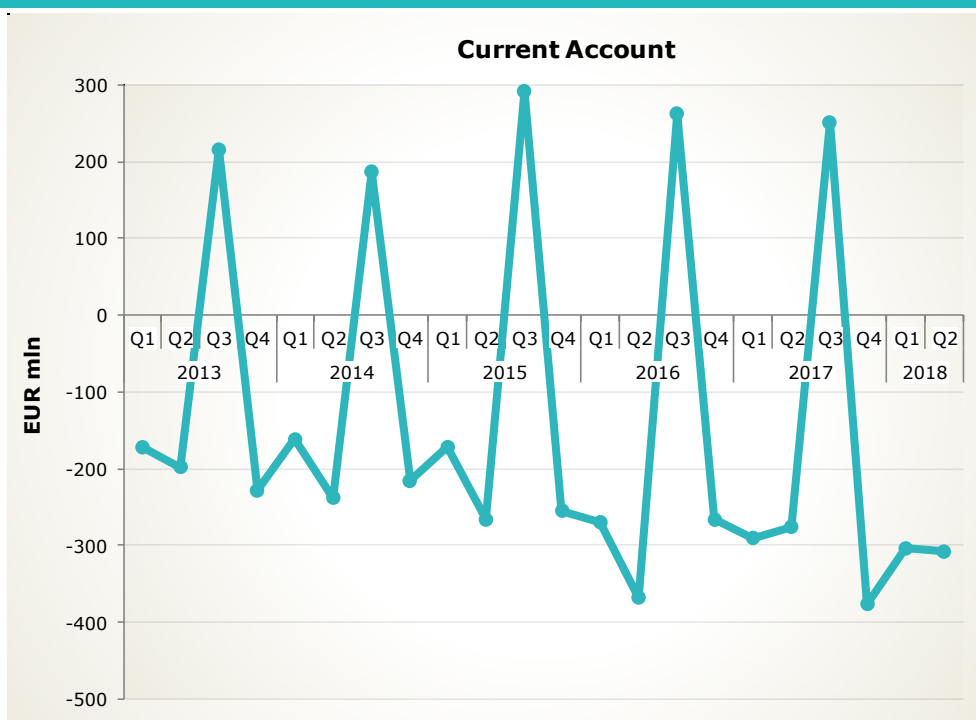
Source: CBCG

7.2. BALANCE OF PAYMENTS

Current account deficit at EUR 308.4 mln in Q2 2018

The current account deficit expanded to EUR 308.4 mln in Q2 2018, up from EUR 276.0 mln in Q2 2017, according to central bank statistics data.

Secondary income expanded by 8.0% y/y to EUR 64.7 mln in Q2 2018.

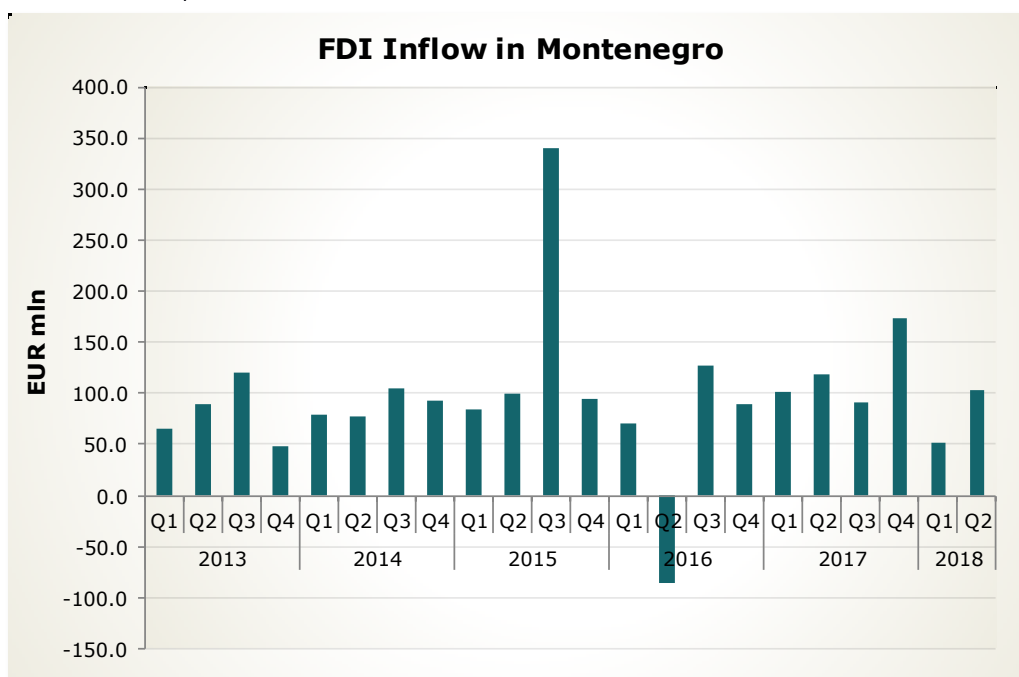


Source: CBCG

7.3. FDI

Net FDI inflow shrank by 13.4% y/y in the second quarter of 2018

During the second quarter of 2018, net FDI in Montenegro amounted EUR 102.8 mln, according to CBCG data. This is a decrease from the net FDI inflow of EUR 118.7 mln in Q2 2017. However, compared to Q1 2018, FDI inflows more than doubled.



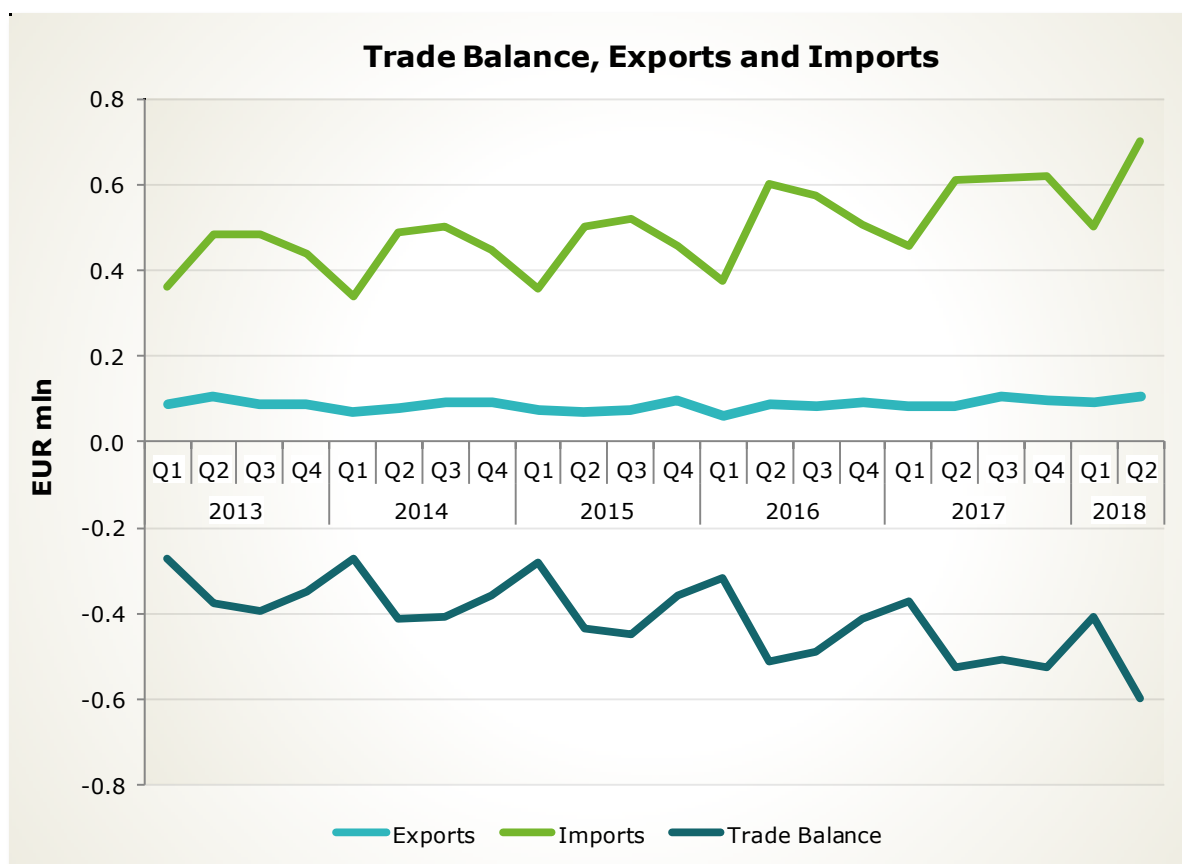
Source: CBCG

7.4. FOREIGN TRADE

Foreign trade deficit grew by 13.7% y/y in Q2 2018

The trade deficit stood at EUR 597.0 mln in the second quarter of 2018, up 13.7% y/y, according to CBCG.

Exports increased by 23.8% y/y to EUR 104.8 mln, but remained much lower than imports, which rose by 15.1% y/y to EUR 701.9 mln. In Q2 2018, the coverage of imports by exports was 14.9%, slightly higher compared to a year ago – 13.9%.



Source: MONSTAT

7.5. TOURISM

Number of foreign tourist overnights increased by 12.7% y/y in Q2 2018

Tourist overnights of foreigners rose by an annual 12.7% to 1.038 million in the second quarter of 2018, according to MONSTAT. The number of foreign tourists grew even faster, at a rate of 14.6% y/y and their number reached 288,331. The share of foreign visitors in total overnights in Montenegro remained very high, at 89.3%, in Q2 2018.



Source: MONSTAT

8. MAJOR DEVELOPMENTS

Montenegro opens one more chapter in EU accession talks

June 27, 2018

Montenegro has opened one more chapter in its membership negotiations with the European Union on June 25, the government said.

[Read the full story here](#)

EBRD to invest in Montenegrin airports, agriculture

June 20, 2018

The European Bank for Reconstruction and Development (EBRD) plans to invest in the development of Montenegro's Tivat and Podgorica airports and in the country's agriculture sector, the lender's vice president Alain Pilloux said.

[Read the full story here](#)

Montenegro to invest EUR 794.9 mln in regional development in 2018

June 9, 2018

Montenegro plans to invest EUR 794.9 mln in regional development projects this year, a government official said.

[Read the full story here](#)

Montenegro launches World Bank-backed tax administration reform project

May 29, 2018

Montenegro's finance ministry said in May it launched a project for reforming the country's tax administration system with the financial support of the World Bank.

[Read the full story here](#)

Montenegro, Kosovo continue talks to build cross-border road tunnel

May 29, 2018

Montenegro's transport minister Osman Nurkovic said he has discussed the project for construction of a cross-border road tunnel with Kosovo infrastructure minister Pal Lekaja.

[Read the full story here](#)

Montenegro signs EUR 250 mln policy support loan with World Bank

May 15, 2018

Montenegro's government said it signed a EUR 250 mln (\$299.6 million) facility agreement with the World Bank to support the country's fiscal policy measures.

[Read the full story here](#)

Montenegro invites EU companies to join China-funded motorway construction project

Apr 26, 2018

Montenegro's transport minister Osman Nurkovic has invited EU companies to participate in the construction of the Bar-Boljare motorway, a major project financed from a loan provided by the Export-Import Bank of China (EXIM Bank).

[Read the full story here](#)

EC says Montenegro should address high public debt

Apr 18, 2018

Montenegro must address its high public debt burden, the European Commission said in April in its 2018 report on the EU candidate country accompanying the Commission's annual enlargement package.

[Read the full story here](#)

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