

MONTENEGRO ECONOMY REPORT

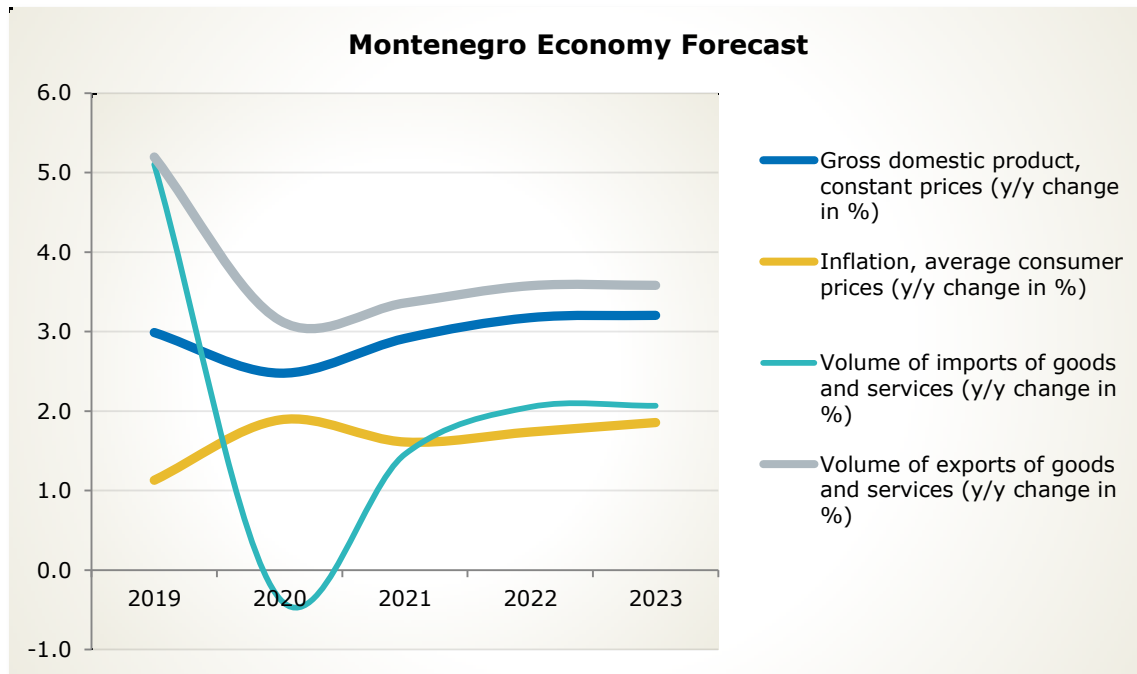
Q2 2019

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1. MACROECONOMIC SNAPSHOT AND FORECAST

MONTENEGRO – MACROECONOMIC SNAPSHOT AS OF Q2 2019	
GDP Growth	3.2% y/y
Industrial output	-12.2% y/y
Industrial sales	-14.3% y/y
Retail sales	5.0% y/y
Average annual inflation	0.5%
Unemployment rate	14.3%
Number of building permits	-51.0% y/y
Household loans	8.9% y/y
MNSE10 blue-chip index	0.8% q/q
Gross External Debt	EUR 2.622 bln
Current account deficit	EUR 327.6 mln
FDI inflow	EUR 144.6 mln
Foreign trade deficit	EUR 617.1 mln
Number of foreign tourist overnights	11.0% y/y

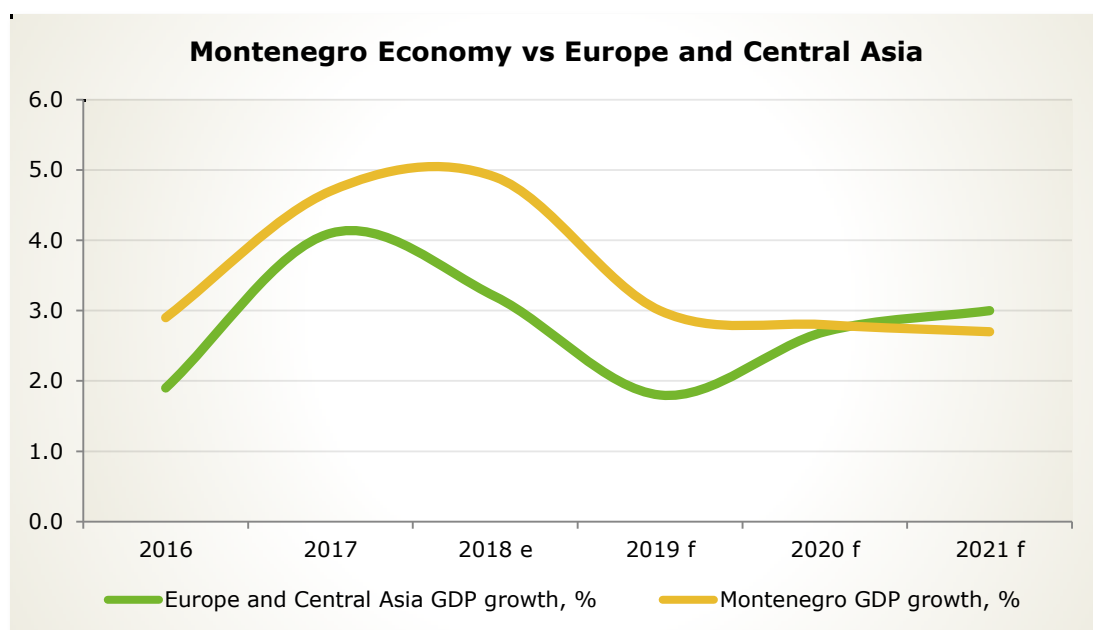


Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2019

IMF expects the economy of Montenegro to expand by 3.0% in 2019, down from the 4.9% growth in 2018. Growth rates will moderate and 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 79% of GDP in 2018.

According to the World Bank estimates, GDP growth is likely to come in at 3.0% in 2019, down from 4.9% in 2018. This will be higher than the projected growth for Europe and Central Asia, of 1.8% in 2019.



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

Montenegro – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)							
	2016	2017	2018	2019 e	2020 f	2021 f	
Real GDP growth, at constant market prices, y/y change in %	2.9	4.7	4.9	3.0	2.8	2.7	
Private Consumption	5.4	3.9	4.5	3.3	2.8	2.9	
Government Consumption	0.8	-1.4	2.5	0.1	-0.2	-0.3	
Gross Fixed Capital Investment	38.4	18.7	14.8	3.9	-0.8	-4.4	
Exports, Goods and Services	5.9	1.8	9.5	4.3	3.9	4.0	
Imports, Goods and Services	15.3	8.4	9.3	4.2	1.4	-0.1	
Real GDP growth, at constant factor prices (by sectors)	3.0	4.8	4.9	3.0	2.8	2.7	
Agriculture	3.9	-3.1	0.0	0.1	0.4	0.5	
Industry	11.5	9.7	14.0	5.0	3.0	1.8	
Services	0.6	4.4	2.7	2.7	3.1	3.3	
Inflation (Consumer Price Index)	-0.3	2.4	2.6	1.0	1.6	1.8	
Current Account Balance (% of GDP)	-16.2	-16.1	-17.2	-17.4	-15.3	-11.9	
Net Foreign Direct Investment (% of GDP)	9.4	11.3	7.0	8.0	8.0	8.0	

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

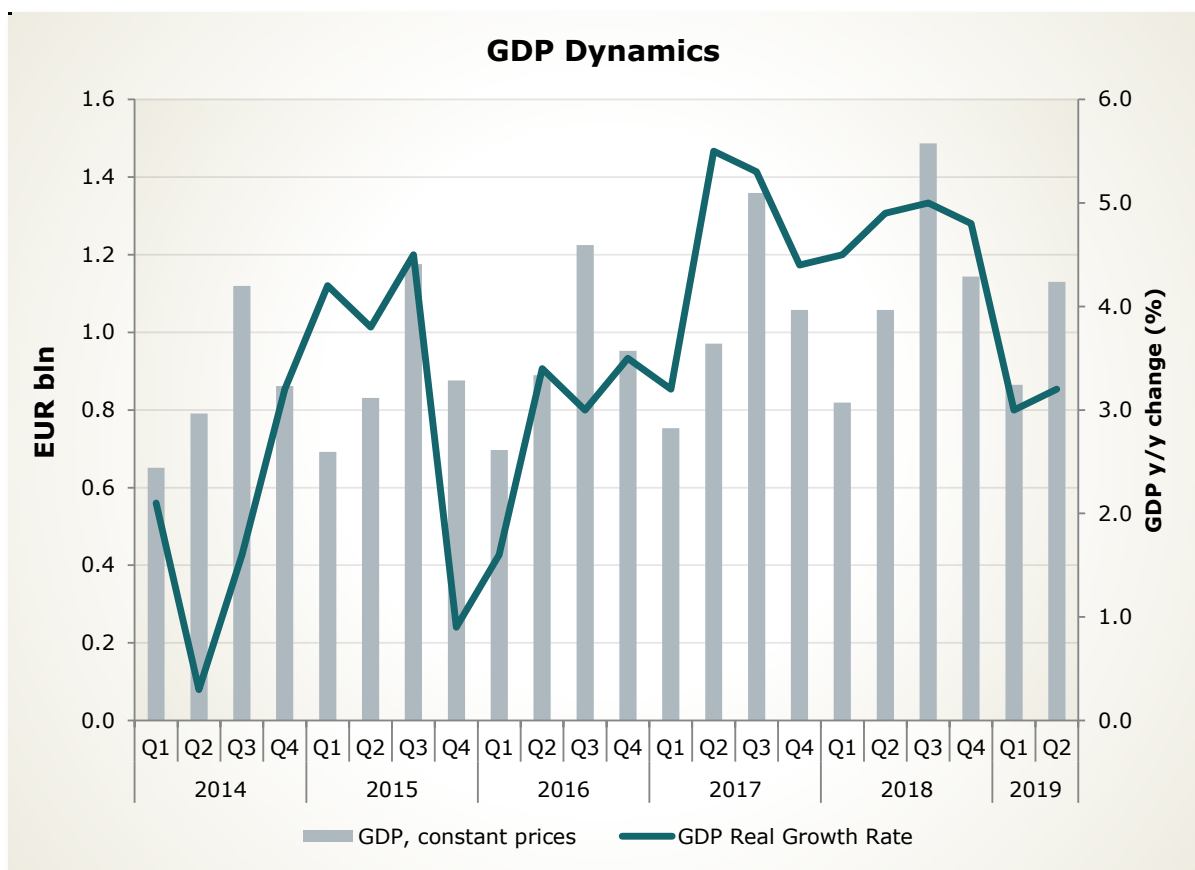
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth slowed down to 3.2% y/y in Q2 2019

The economy of Montenegro continued to grow during the second quarter of 2019, although at a slower pace. The country's real GDP annual growth came in at 3.2%, down from the 4.9% y/y growth in Q2 2018, according to the Statistical Office of Montenegro (MONSTAT).

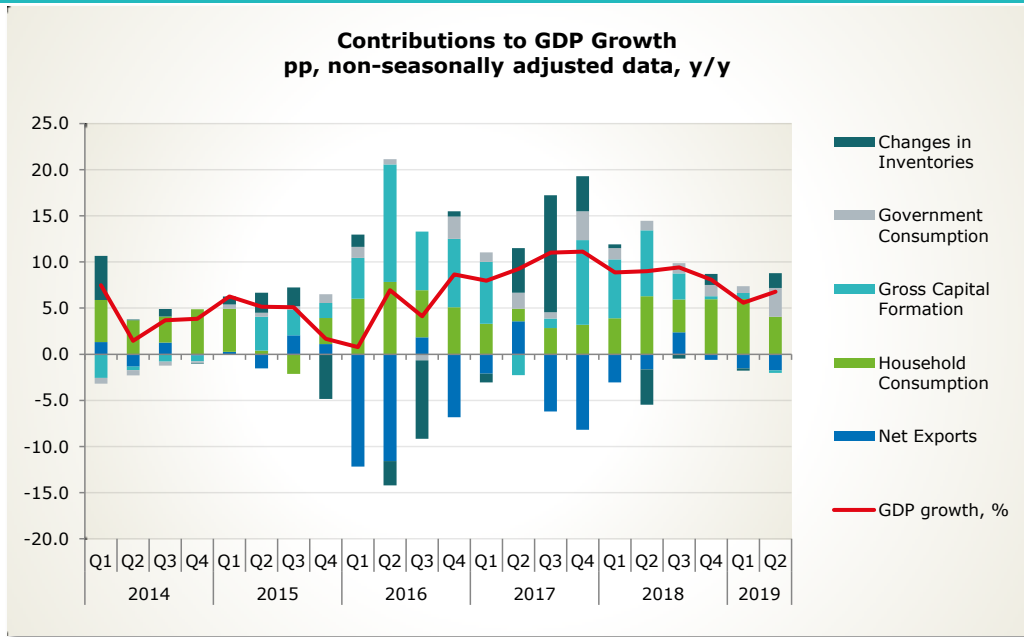
The GDP totaled EUR 1,129.6 bln in constant prices in Q2 2019, compared to EUR 1,058.0 bln in the same quarter of the previous year.



Source: MONSTAT

Final consumption increased in value terms by 7.0% on the year to EUR 1,130.1 mln. Gross capital formation went down by 0.7% y/y to EUR 377.7 mln. Exports grew by 7.6% on the year, while imports advanced slower - by 6.3%.

Household consumption was the leading contributor to the GDP growth in the period under consideration, adding 4.1 pp, followed by government consumption with 3.1 pp. Changes in inventories were also positive, while net exports and gross capital formation took away 1.8 pp and 0.3 pp, respectively, from the annual GDP growth in Q2 2019.

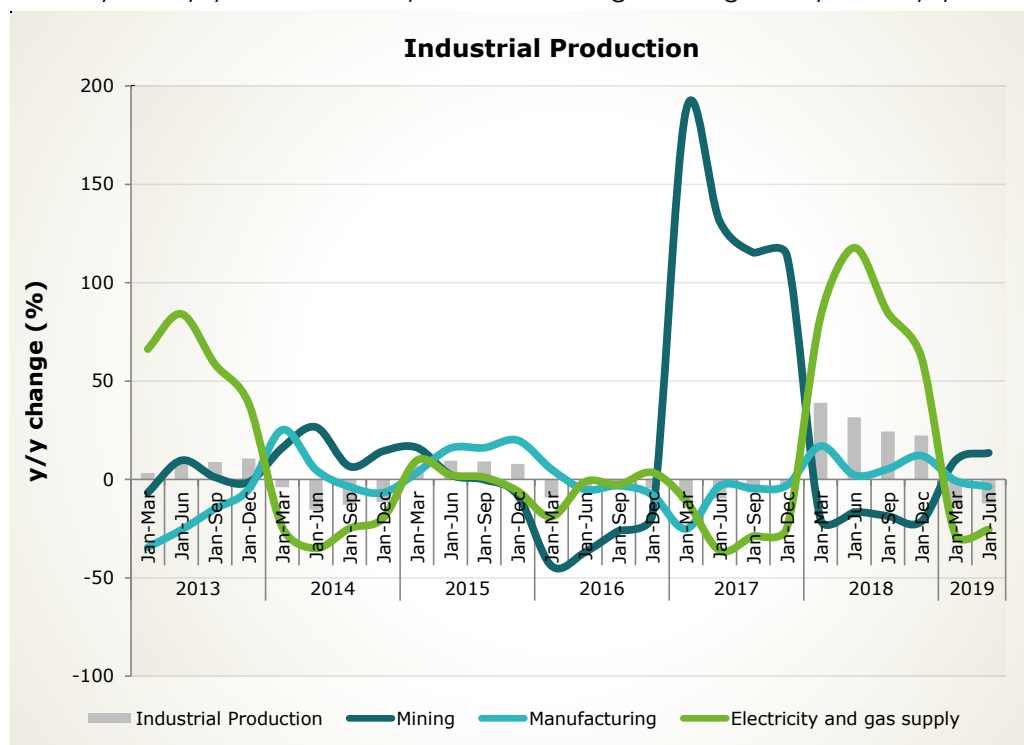


Source: MONSTAT

2.2. INDUSTRIAL OUTPUT

Industrial output declined by 12.2% y/y in H1 2019

Industrial output fell by 12.2% on the year in the first half of 2019, according to MONSTAT. The decrease was caused by the slump in output of the electricity and gas supply industry by 25.4% on the year, after a very strong 2018. The output of the manufacturing industry also went down, by 3.6% y/y, while the output of the mining sector grew by 13.5% y/y.



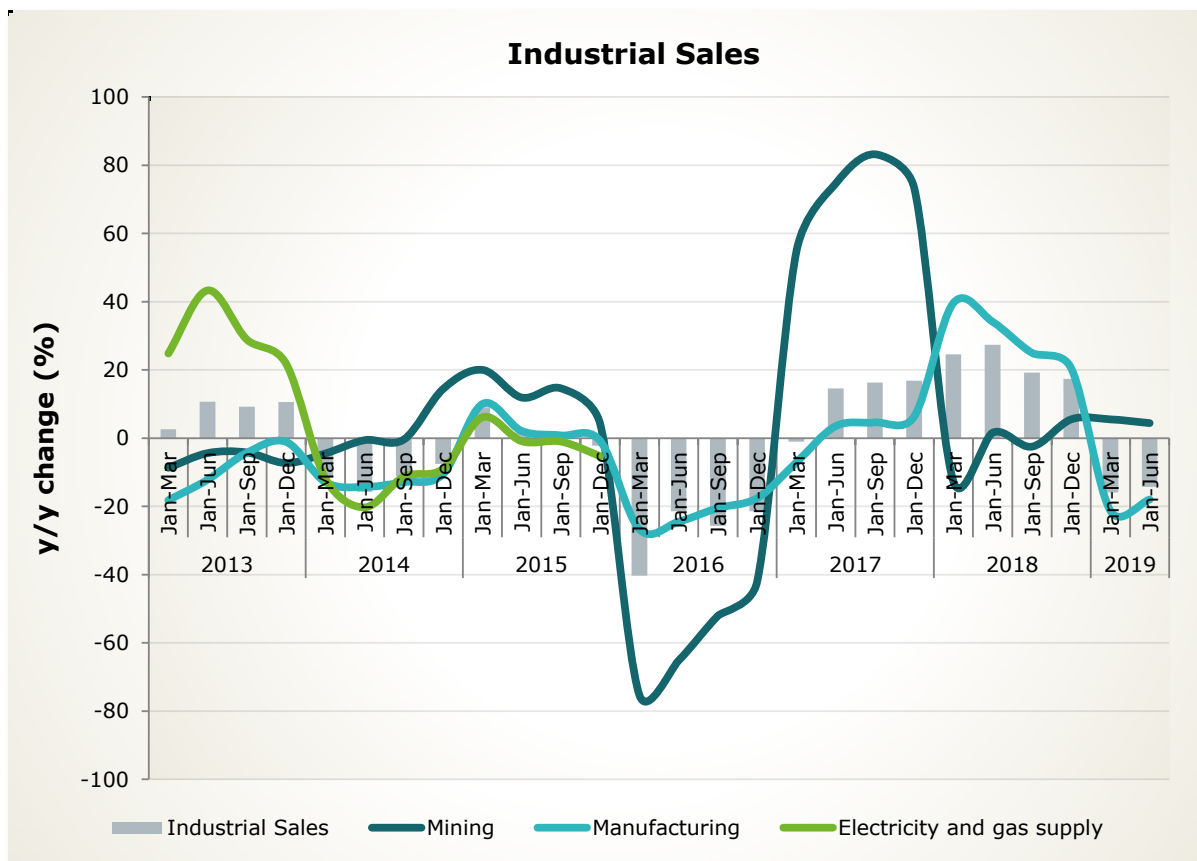
Source: MONSTAT

2.3. INDUSTRIAL SALES

Industrial sales decreased by 14.3% y/y in Jan-June 2019

Industrial sales went down by 14.3% y/y in the first six months of 2019, according to MONSTAT.

The drop in the period under consideration was mainly due to the 18.0% y/y decrease in the sales of the manufacturing industry. Sales of the mining sector grew by 4.4% y/y.



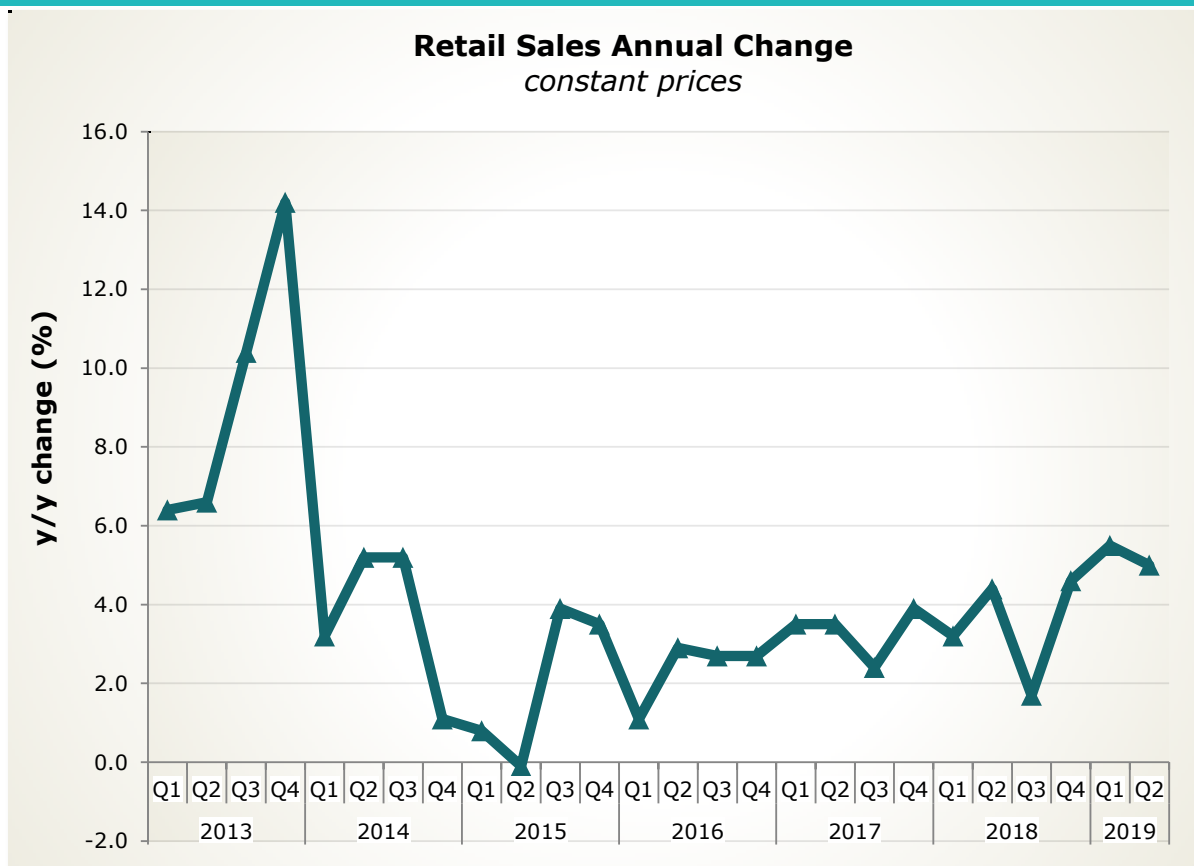
Source: MONSTAT

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

2.4. WHOLESALE/RETAIL

Retail sales grew 5.0% y/y in Q2 2019

Retail sales went up by 5.0% y/y in constant prices in Q2 2019, compared to 4.4% y/y rise in the same quarter of the previous year, according to MONSTAT data. Growth in retail sector was fueled by the expanding economy and the wage level increase, caused by the tightening labor market.



Source: MONSTAT

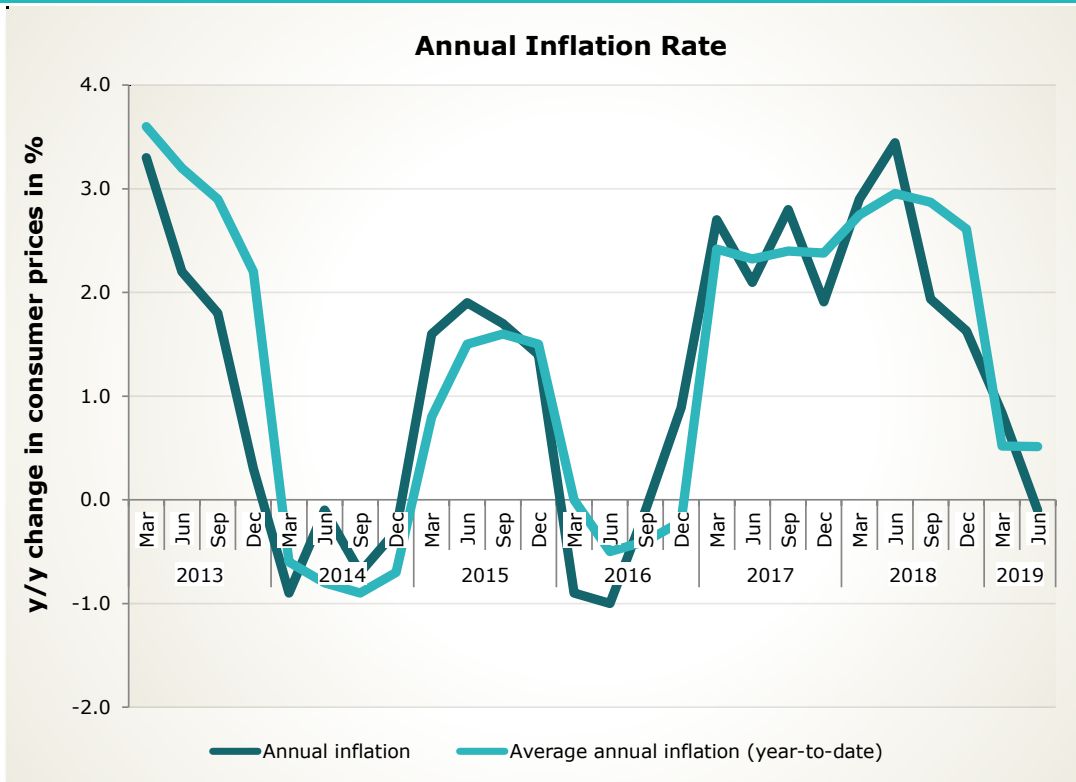
2.5. INFLATION

Average annual inflation at 0.5% y/y in Jan-June 2019

Montenegro registered an average annual inflation of 0.5% in January-June 2019, according to MONSTAT data. This is a decrease compared to the inflation level of 3.0% in the corresponding period of the previous year.

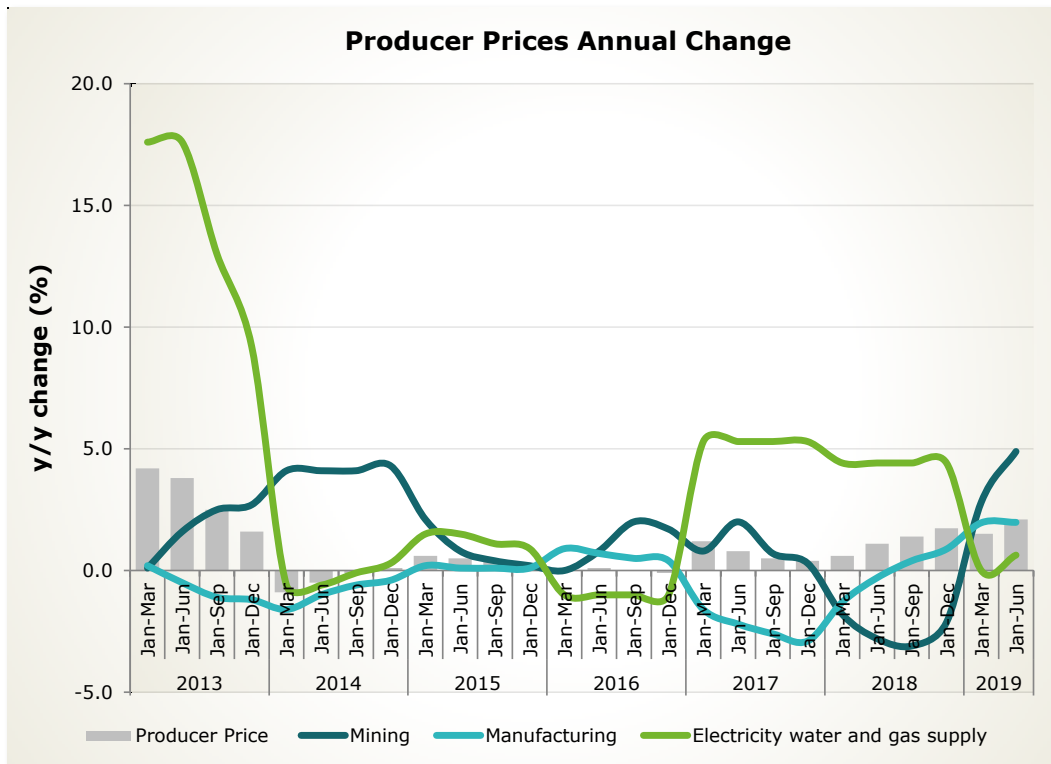
Segment wise, the lower inflation was influenced mostly by decrease in prices of alcoholic beverages and tobacco, clothing and footwear, health services, transport services, communications, recreation and culture.

Prices of food and non-alcoholic beverages and housing, water and electricity supply climbed the most and managed to offset the decrease in the remaining product groups.



Source: MONSTAT

Producer prices inched up by 2.1% y/y in January-June 2019. The mining sector saw producer prices increase the most, by 4.9%, followed by manufacturing with 2.0% and the electricity, gas and water supply sector with 0.6%.



Source: MONSTAT

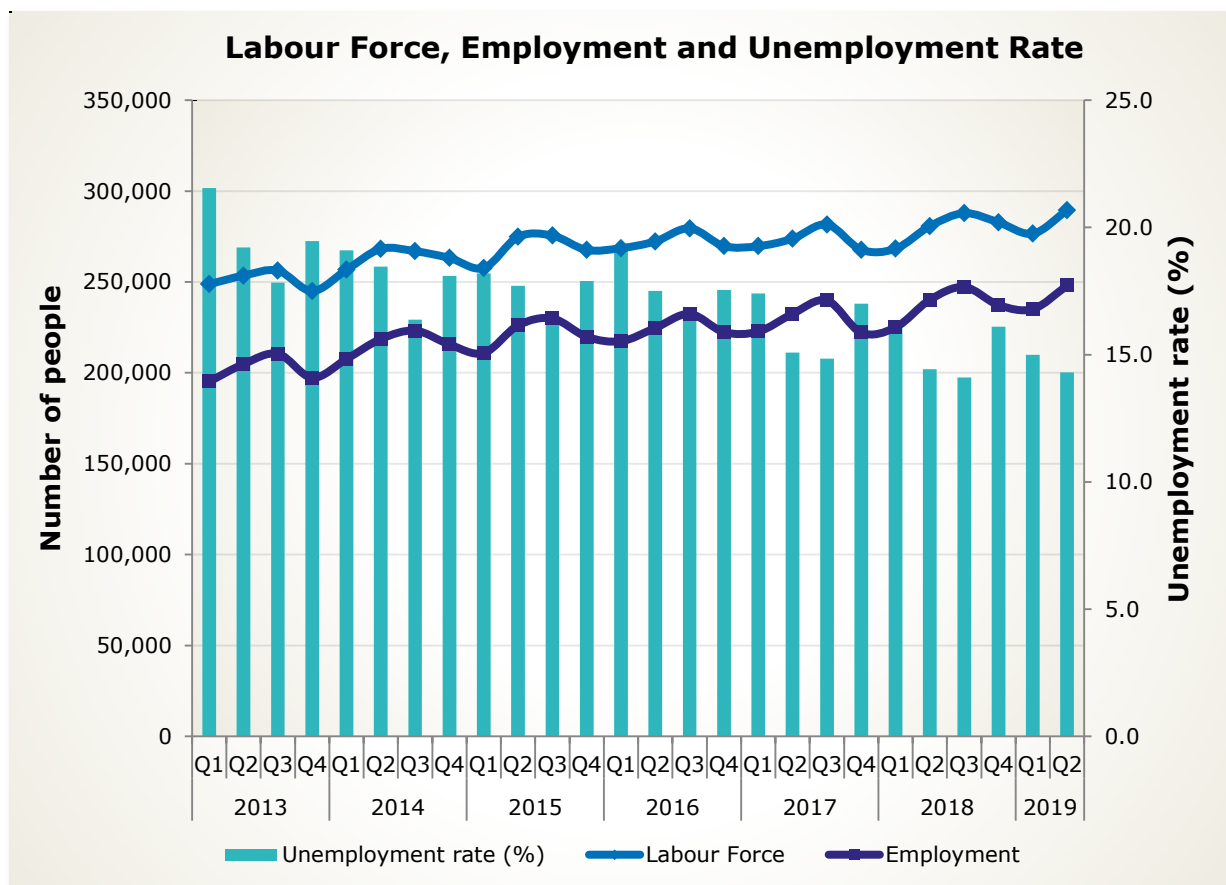
3. LABOUR MARKET

Unemployment rate at 14.3%, wages almost unchanged y/y in Q2 2019

Unemployment in Montenegro eased further to 14.3% of the total labour force in Q2 2019, down from 14.4% in the same quarter of 2018, according to data of MONSTAT.

The employed population aged 15 years and older numbered 248,000 people in Q2 2019, up by 3.2% y/y.

The youth (population aged 15-24) unemployment rate narrowed to 20.7% y/y from 23.9% in Q2 2018.



Source: MONSTAT

According to MONSTAT, the average monthly net salary in Q2 2019 remained almost unchanged, at EUR 513, compared to EUR 511 a year ago.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits shrank by 51.0% y/y in Q2 2019

The number of building permits issued in Montenegro in Q2 2019 dropped by 51.0% y/y and totaled 50, according to MONSTAT data.

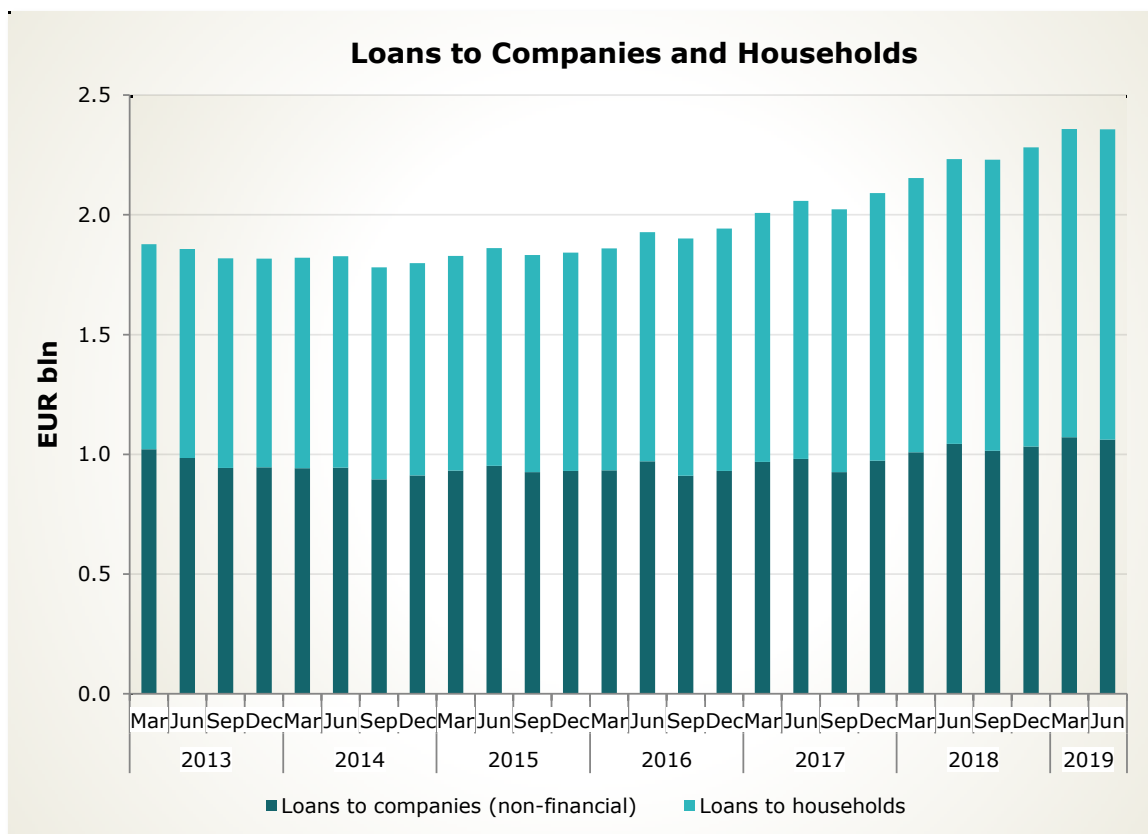
The number of dwellings, covered by the permits, suffered an even sharper collapse to 274 in Q2 2019 from 733 in Q2 2018. The total built-up area more than halved to 17,191 sq m from 41,611 sq m in the same quarter of the previous year.

5. BANKING AND INSURANCE

Household loans grew by 8.9% y/y as of end-June 2019

Loans to non-financial companies totalled EUR 1.061 bln in June 2019, up by 1.7% y/y, according to Central bank of Montenegro (CBCG).

Household loans grew by 8.9% to EUR 1.295 bln, accounting for 55.0% of the total loans to the non-government and non-financial sector, while corporate loans sliced a 45.0% share.

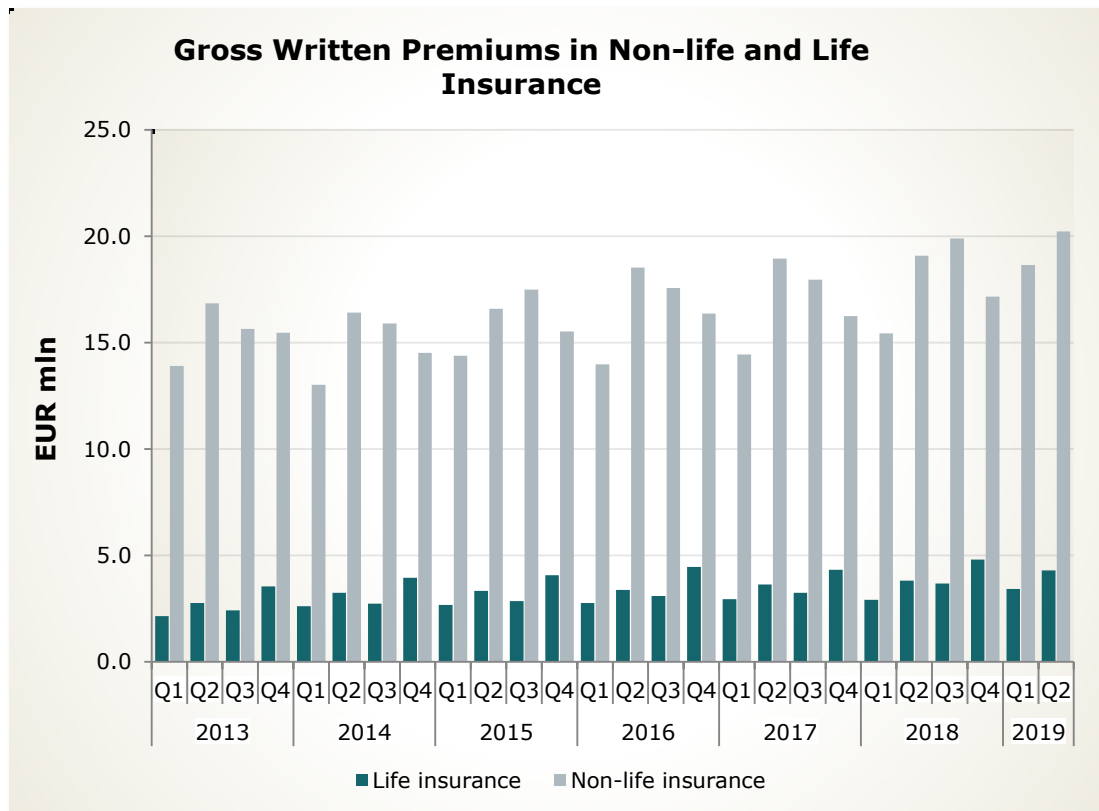


Source: CBCG

Insurance premiums up 7.0% y/y in Q2 2019

The total gross written premiums of the Montenegrin non-life and life insurance companies stood at EUR 24.513 mln, up by 7.0% y/y, in Q2 2019, according to the country's Insurance Supervision Agency (ANO).

The premiums of the non-life insurance market stood at EUR 20.222 mln, or by 5.9% more than a year earlier, while the life insurance sector grew by 12.5% y/y to EUR 4.290 mln.



Source: ANO

6. CAPITAL MARKETS

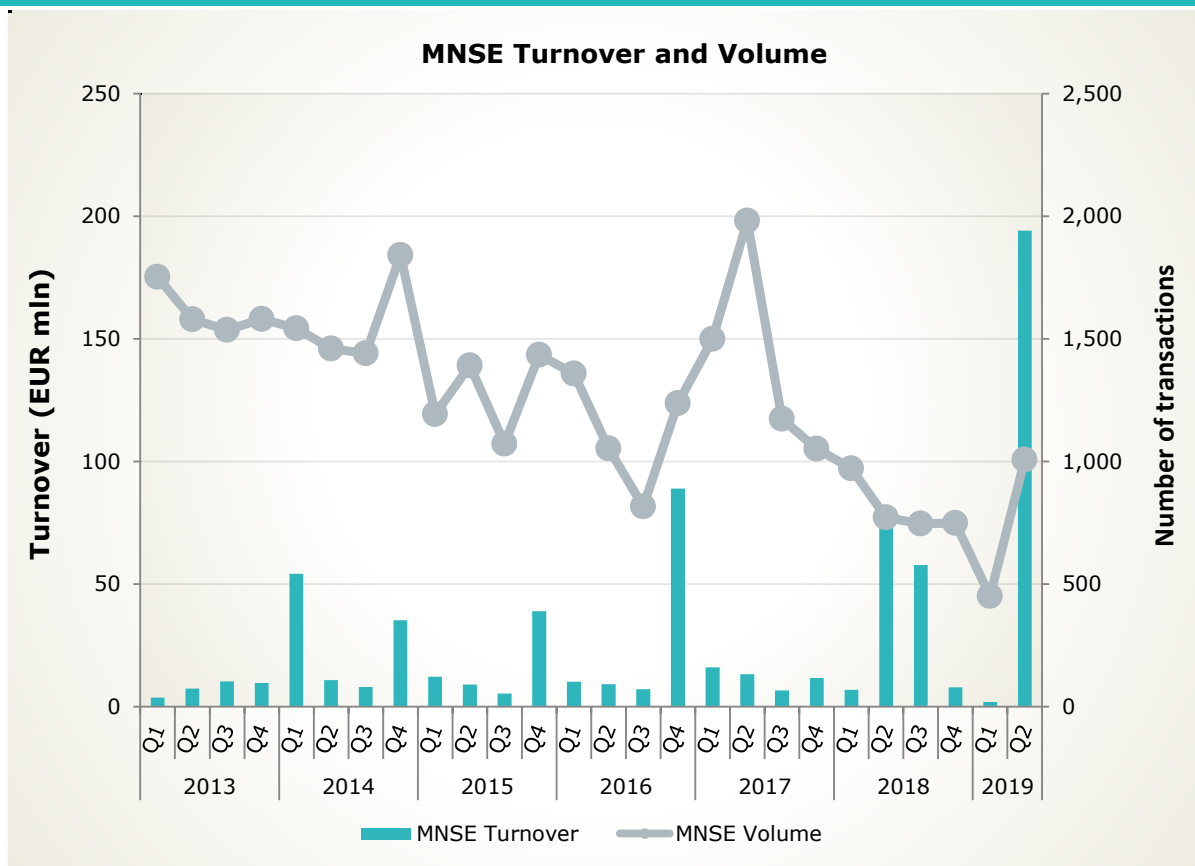
Blue-chip MNSE10* averaged 828 points in Q2 2019

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

In Q2 2019, the value of MNSE10, the blue-chip index of the Montenegro Stock Exchange (MNSE), averaged 828 points, up 0.8% q/q from 822 points in Q1 2019.

MNSE's market capitalization went up by 11.8% q/q to EUR 3.477 bln at end-June 2019 in comparison to EUR 3.111 bln in March 2019.

The total turnover on the bourse increased to EUR 194.079 mln in Q2 2019 from EUR 1.831 mln in March 2019.



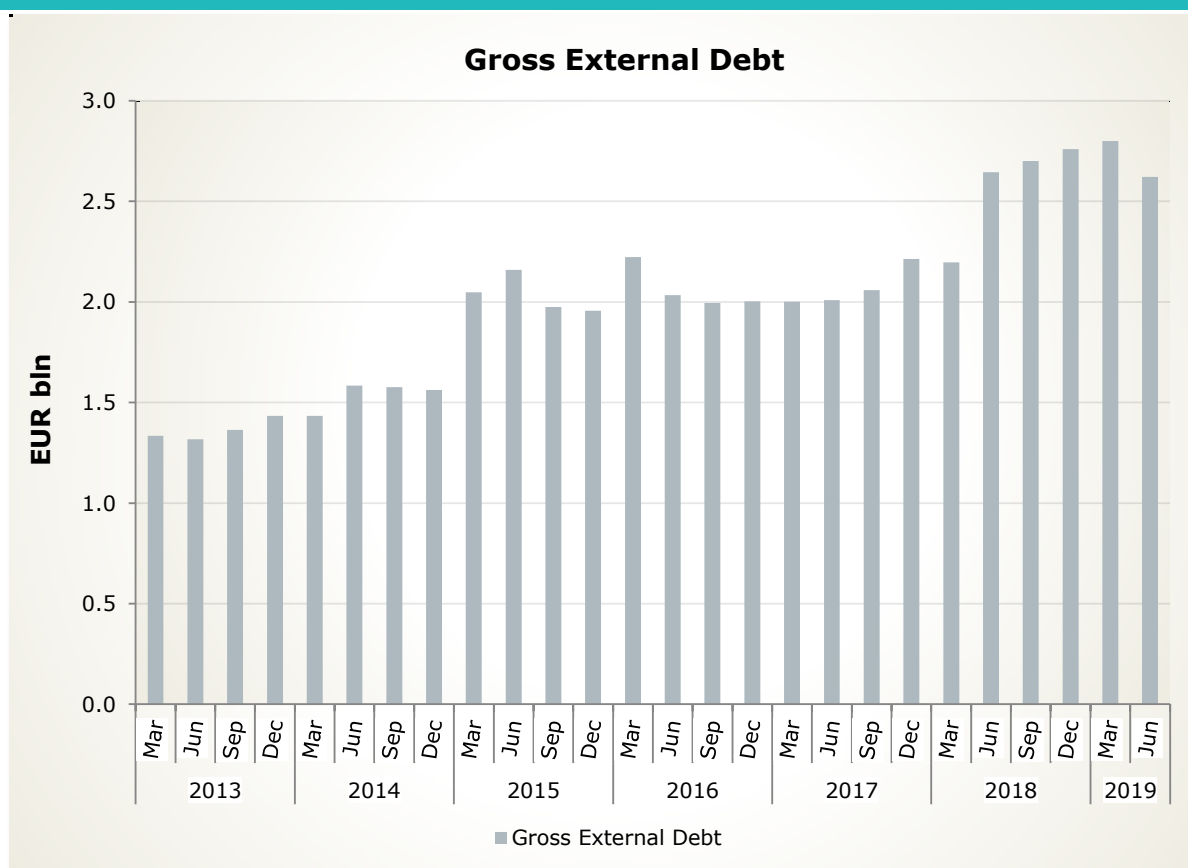
Source: MNSE

7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt decreased to EUR 2.622 bln in June 2019

The gross external debt expanded to EUR 2.622 bln in June 2019, down by 0.9% y/y, according to CBCG.



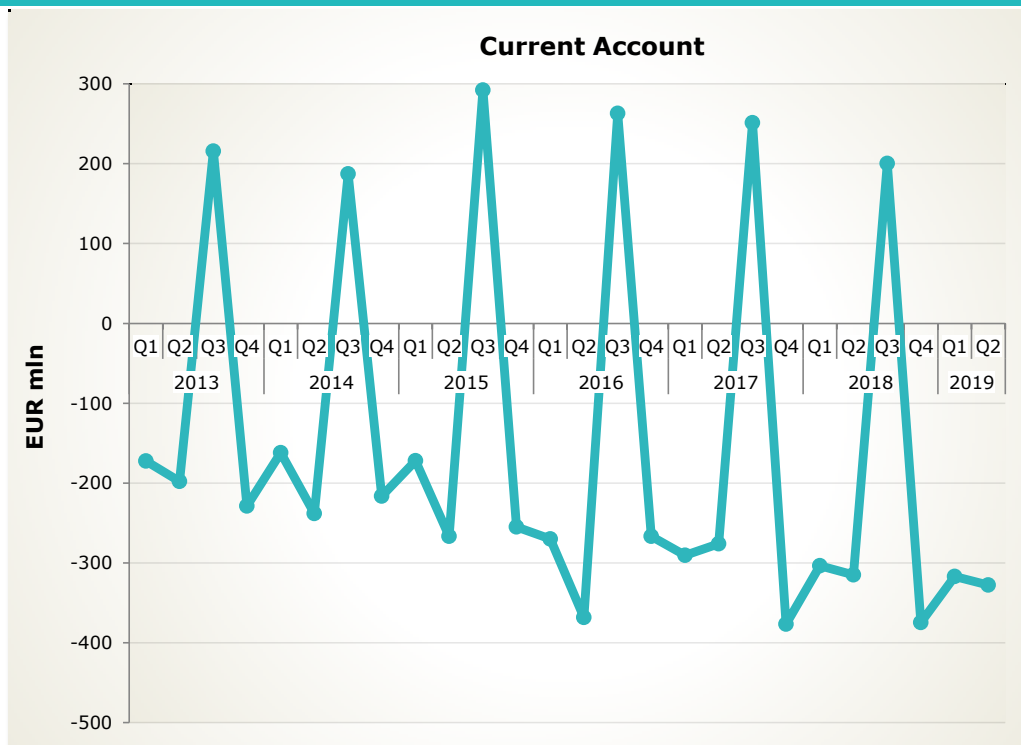
Source: CBCG

7.2. BALANCE OF PAYMENTS

Current account deficit at EUR 327.6 mln in Q2 2019

The current account deficit expanded to EUR 327.6 mln in Q2 2019 from EUR 315.0 mln in Q2 2018, according to central bank statistics data.

Secondary income went up by 13.7% y/y to EUR 73.5 mln, compared with EUR 64.7 mln in Q2 2018.

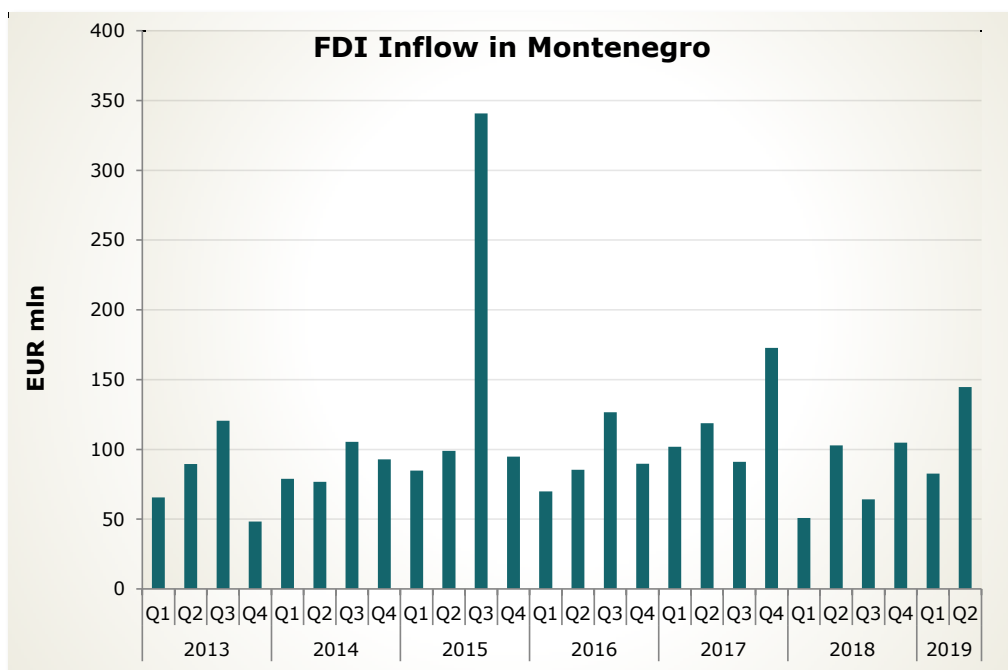


Source: CBCG

7.3. FDI

Net FDI inflow at EUR 144.6 mln in Q2 2019

During the second quarter of 2019, net FDI in Montenegro amounted to EUR 144.6 mln, according to CBCG data. This is an increase from the net FDI inflow of EUR 102.8 mln in Q2 2018.

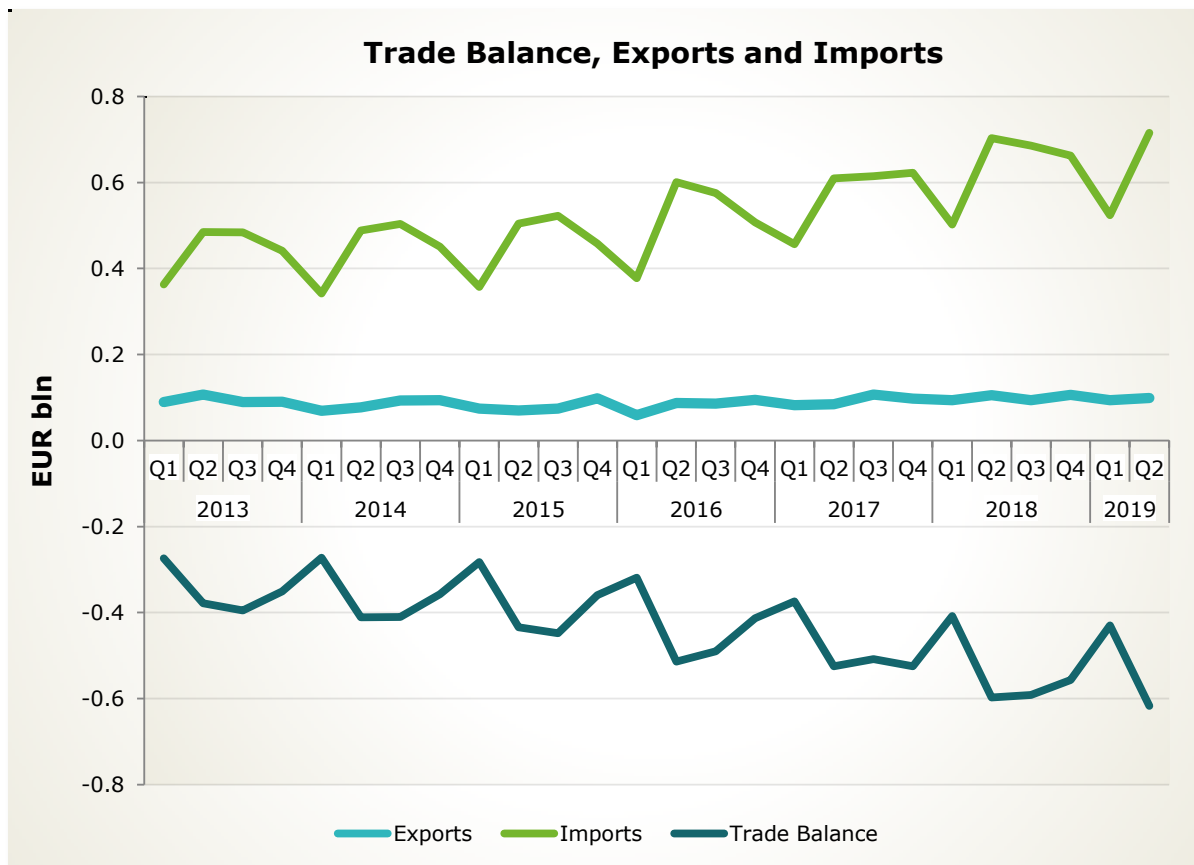


Source: CBCG

7.4. FOREIGN TRADE

Foreign trade deficit grew by 3.3% y/y in Q2 2019

The trade deficit stood at EUR 617.1 mln in Q2 2019, up 3.3% y/y, according to CBCG. Exports narrowed by 6.7% y/y to EUR 98.6 mln, while imports went up by 1.8% y/y to EUR 715.7 bln.



Source: MONSTAT

7.5. TOURISM

Number of foreign tourist overnights increased by 11.0% y/y in Q2 2019

Tourist overnights of foreigners rose by an annual 11.0% to 1.153 mln in Q2 2019, according to MONSTAT. The number of foreign tourists grew even faster, at a rate of 19.2% y/y, to reach 343,806. The share of foreign visitors in total overnights in Montenegro remained very high, at 89.4%, up from 89.3% in the corresponding period of the previous year.



Source: MONSTAT

8. MAJOR DEVELOPMENTS

Montenegro completes IBRD-funded higher education project

June 21, 2019

Montenegro's government has successfully implemented a higher education and research development project, funded with a EUR 12 mln (USD13.6 mln) loan from the International Bank for Reconstruction and Development.

[Read the full story here](#)

Montenegro, Italy to launch undersea power link by end-2019 - report

June 4, 2019

Montenegro expects the submarine cable linking its power transmission system to Italy's to be put into commercial operation by the end of 2019.

[Read the full story here](#)

Montenegro's econ min says concessions for small HPPs not on govt agenda

May 24, 2019

Montenegro's government does not plan to grant concessions for the construction of small hydropower plants (HPP) as it will focus on the development of wind and solar projects instead.

[Read the full story here](#)

Montenegro's IDF lending EUR 38.2 mln for Bar-Boljare motorway

May 22, 2019

Montenegrin state-run road operator Monteput has signed an agreement to receive a EUR 38.2 mln (USD 42.7 mln) loan from the country's Investment and Development Fund (IDF).

[Read the full story here](#)

EBRD to co-finance Montenegro's motorway construction project

Apr 22, 2019

The European Bank for Reconstruction and Development plans to co-finance the construction of the Matesevo-Andrijevica section of Montenegro's motorway linking the port of Bar to the border with Serbia, EBRD president Suma Chakrabarti has said.

[Read the full story here](#)

Montenegro approves EUR 19 mln loan from China to back SMEs

Apr 12, 2019

Montenegro's government said it has approved a EUR 19 mln loan from China Development Bank (CDB), to be used to support to small and medium-sized enterprises (SMEs).

[Read the full story here](#)

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