

MONTENEGRO ECONOMY REPORT

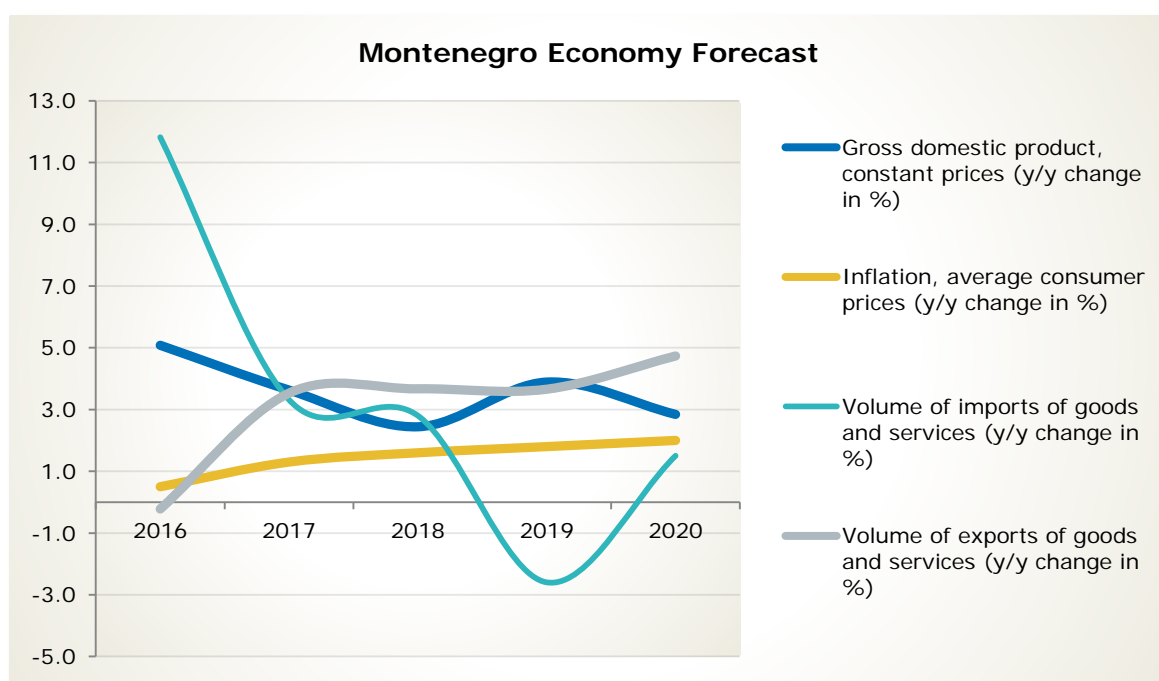
Q3 2016

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1. MACROECONOMIC SNAPSHOT AND FORECAST

| MONTENEGRO – MACROECONOMIC SNAPSHOT AS OF Q3 2016 | |
|---|----------------------------------|
| GDP Growth | 2.4% y/y |
| Industrial output | -4.2% y/y |
| Industrial sales | -25.7% y/y |
| Retail sales | 2.7% y/y |
| Annual deflation | 0.4% |
| Unemployment rate | 16.9% |
| Number of building permits | 30.4% y/y |
| Household loans | 9.3% y/y |
| MNSE10 blue-chip index | 888 points (base = 1,000 points) |
| Gross External Debt | EUR 1.995 bln |
| Current account surplus | EUR 244.1 mln |
| FDI inflow | EUR 488.9 mln (Jan-Nov 2016) |
| Foreign trade deficit | EUR 488.9 mln |
| Number of foreign tourist overnights | 0.4% y/y |



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

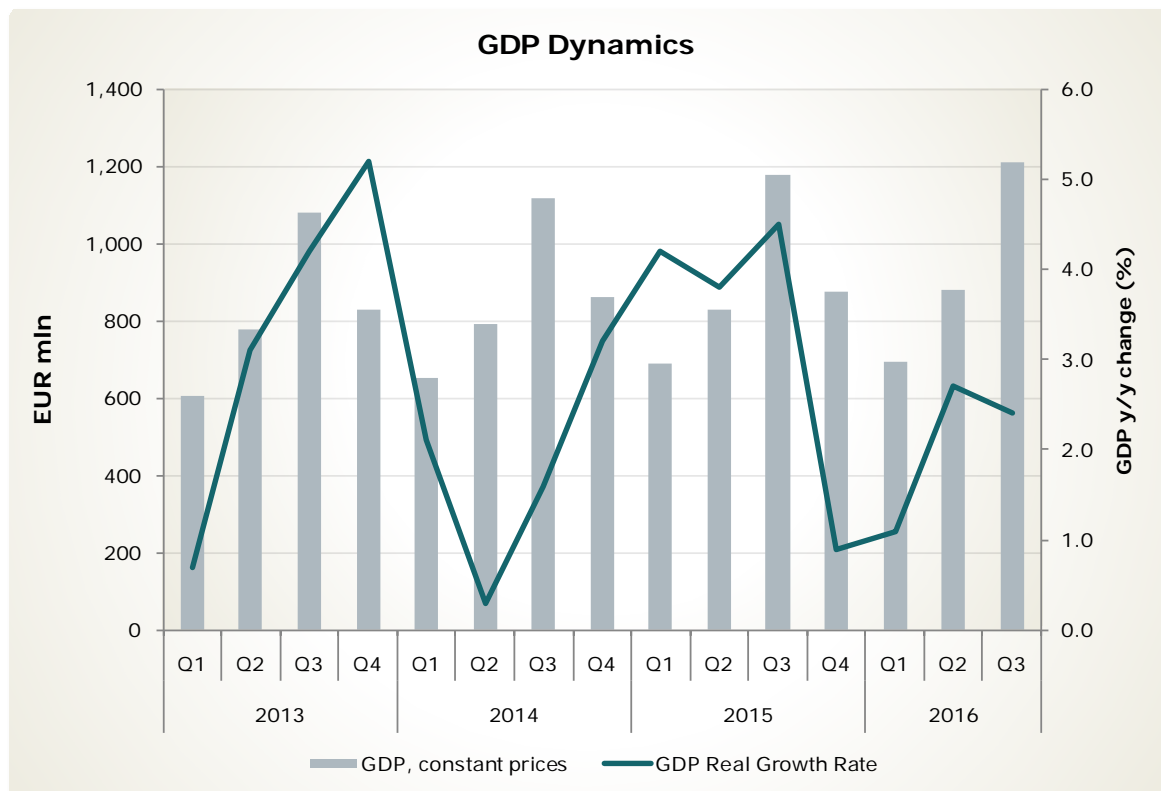
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went down by real 2.4% y/y in Q3 2016, compared to a 4.5% y/y growth a year ago

The country's real GDP annual growth was 2.4% in the third quarter of 2016, according to the Statistical Office of Montenegro (MONSTAT). The GDP totalled EUR 1.209 bln in constant prices in Q3 2016, compared to EUR 1.176 bln in the corresponding quarter of the previous year.

Final consumption increased in value terms by 3.0% on the year to EUR 909.6 mln in Q3 2016. Gross capital formation went up by 32.0% to EUR 248.3 mln. Imports and exports grew by 13.9% and 13.3%.



Source: MONSTAT

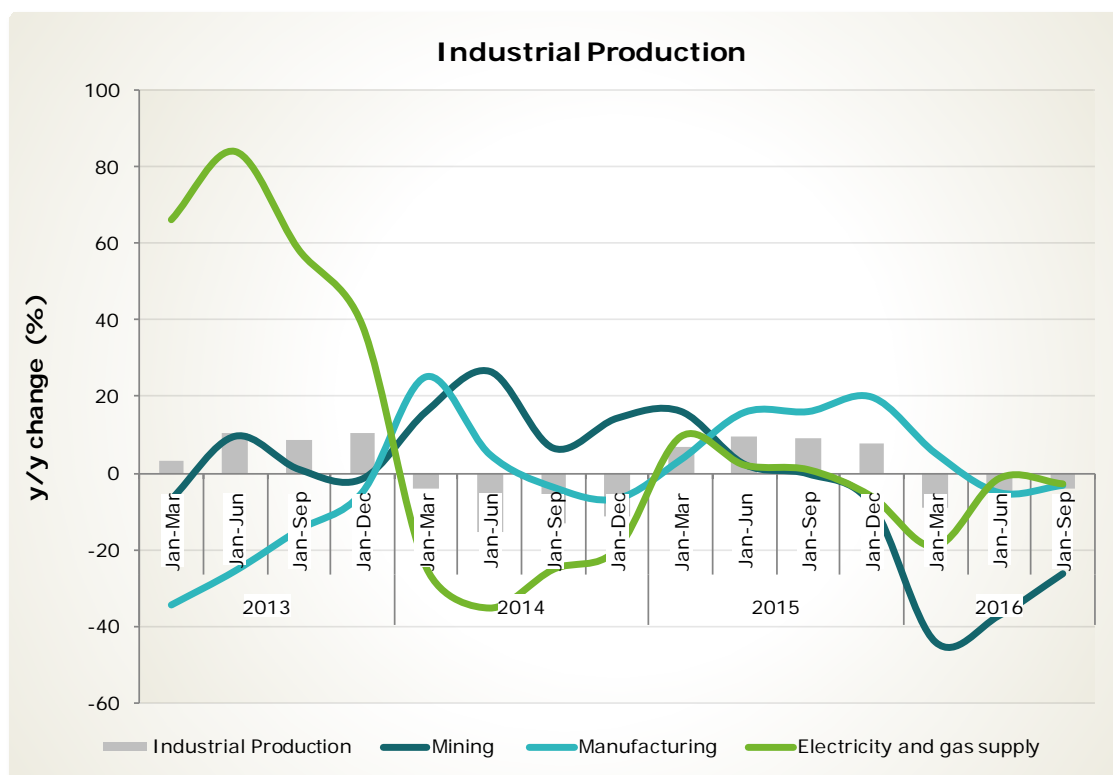
2.2. INDUSTRIAL OUTPUT

Industrial output down 4.2% y/y in Jan-Sept 2016

Industrial output went down by 4.2% on the year in January to September 2016, according to MONSTAT.

The overall drop was caused by the 26.1% slump of the production of the mining industry and the 3.2% fall of the manufacturing output. The electricity and gas supply industry performed better than the others, but still registered a 2.6% annual decrease.

Manufacture of tobacco products experienced the sharpest annual drop in production – 57.5%, while manufacturing of leather and related was the segment with the highest annual production growth, of 80.0%.



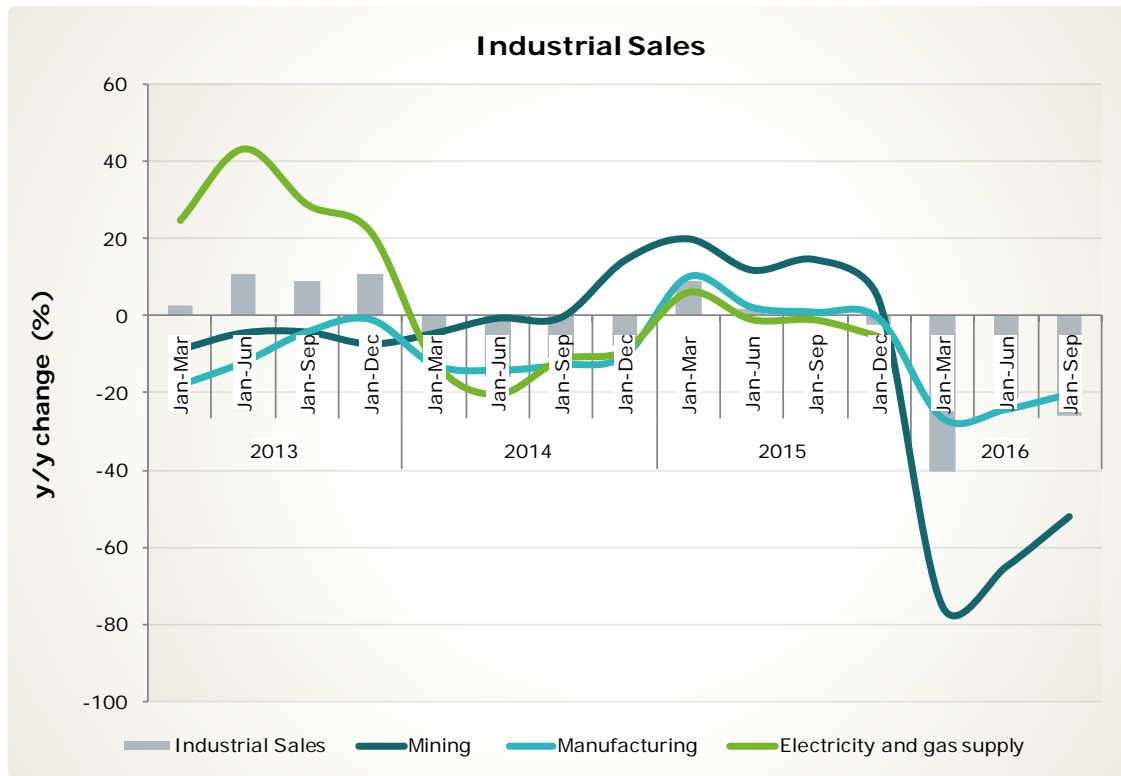
Source: MONSTAT

2.3. INDUSTRIAL SALES

Industrial sales shrank by 25.7% y/y in Jan-Sept 2016

Industrial sales slumped by an annual 25.7% in January to September 2016, according to MONSTAT.

The downtrend in the third half of the year was due to the 52.1% annual drop in the sales of the mining and quarrying sector, and the 20.5% decrease in the sales of the manufacturing sector.



Source: MONSTAT

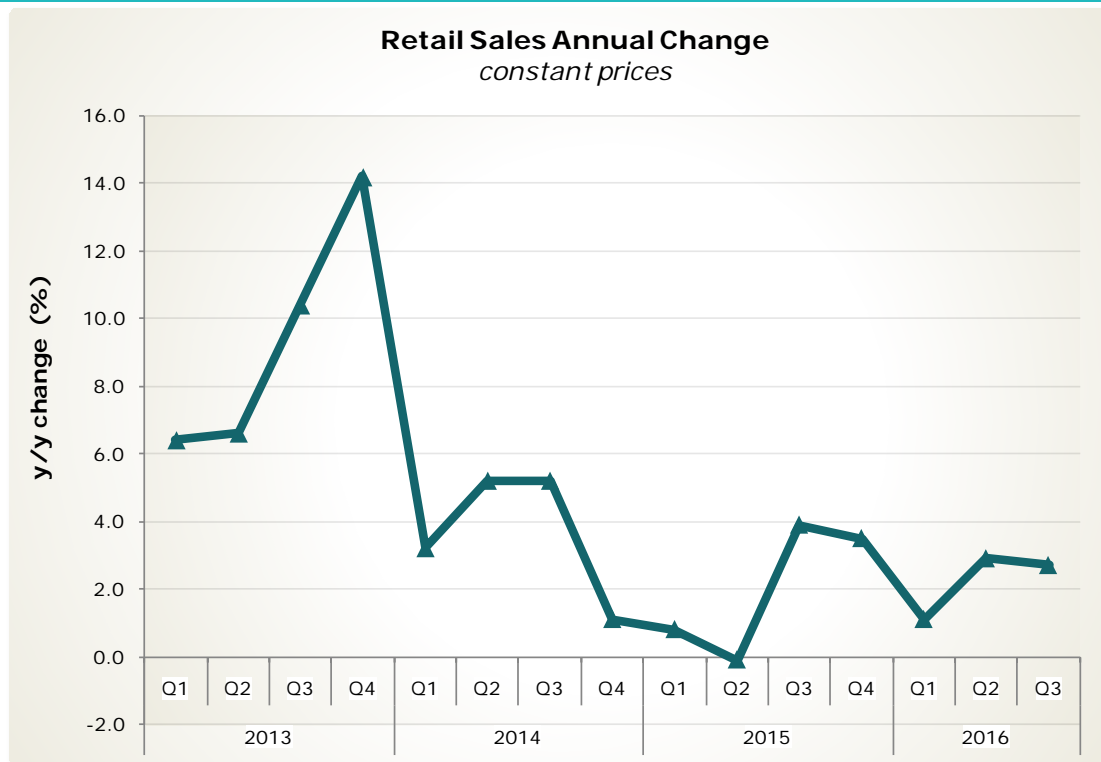
Editor's note: Data for electricity and gas supply sales was not available for January - September 2016.

2.4. WHOLESALE/RETAIL

Retail grew y/y in Q3 2016

Retail sales went up by 2.7% in constant prices in the third quarter of 2016, compared to the corresponding quarter of the previous year, according to MONSTAT data.

Retail trade outside of shops and via internet led the ranking in terms of sharpest average annual growth with 17.5%.



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.

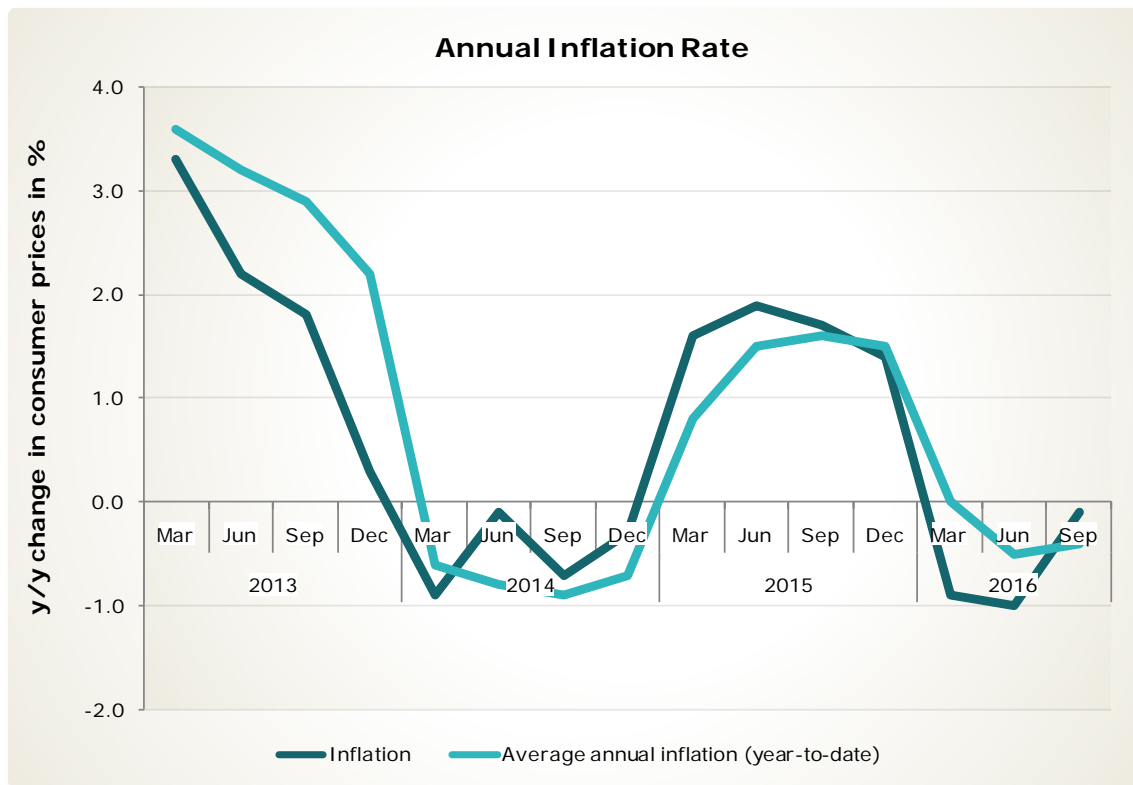
Wholesale of pharmaceutical products came on top in terms of highest annual growth with 17.1%, while scrap and waste wholesale dropped the sharpest, by 15.0%, thus accounting for only 0.06% of the total wholesales.

2.5. INFLATION

Average deflation of 0.4% y/y in Jan-Sept 2016

Montenegro registered an average annual deflation of 0.4% for the first nine months of 2016, according to MONSTAT data.

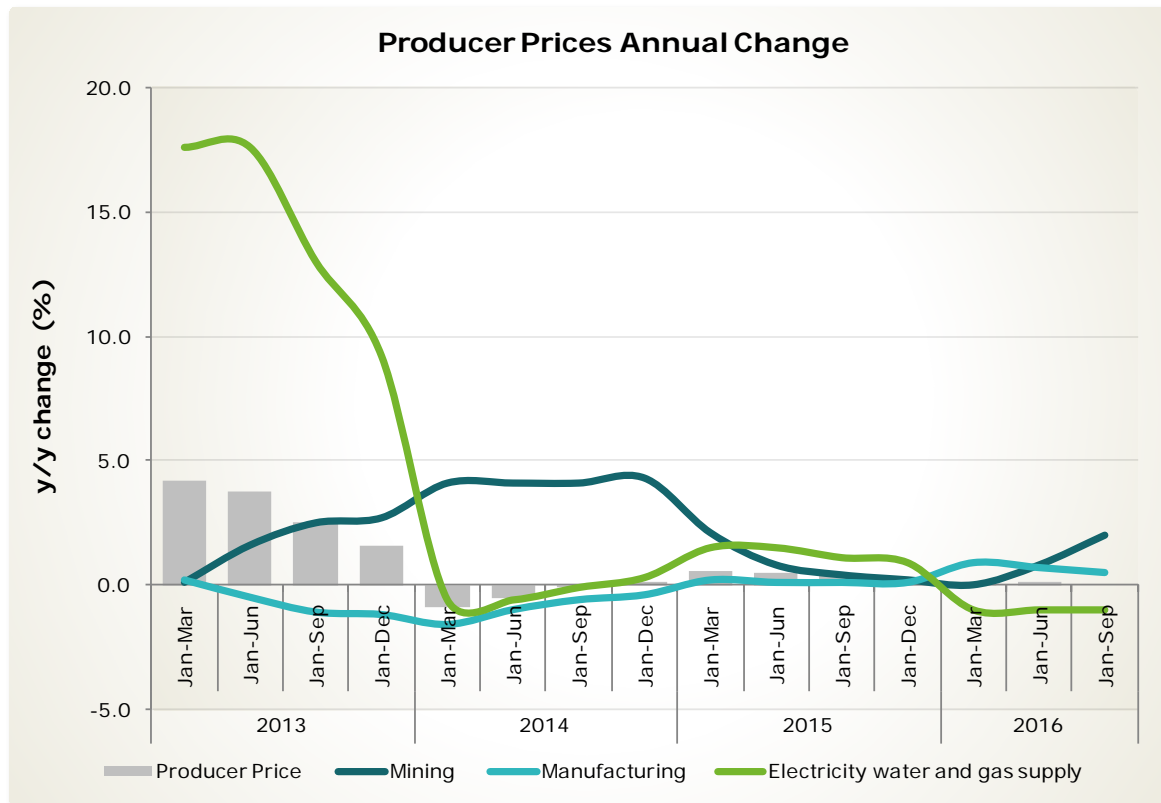
Segment wise, the highest annual increase in consumer prices, of 3.2%, was registered in clothing and footwear, while transport service prices dropped the most – by 5.9%.



Source: MONSTAT

Producer prices remained unchanged in January - September 2016, compared to the same period of the previous year. The mining and quarrying sector registered an annual increase in producer prices of 2.0%, while producer prices in the electricity, gas and water supply sector decreased by 1.0%.

Looking by segments, producer prices grew the most, by 11.3%, in the manufacturing of leather and leather products, while the sharpest decline, of 0.9%, was registered by manufacturing of basic pharmaceutical products and preparations.



Source: MONSTAT

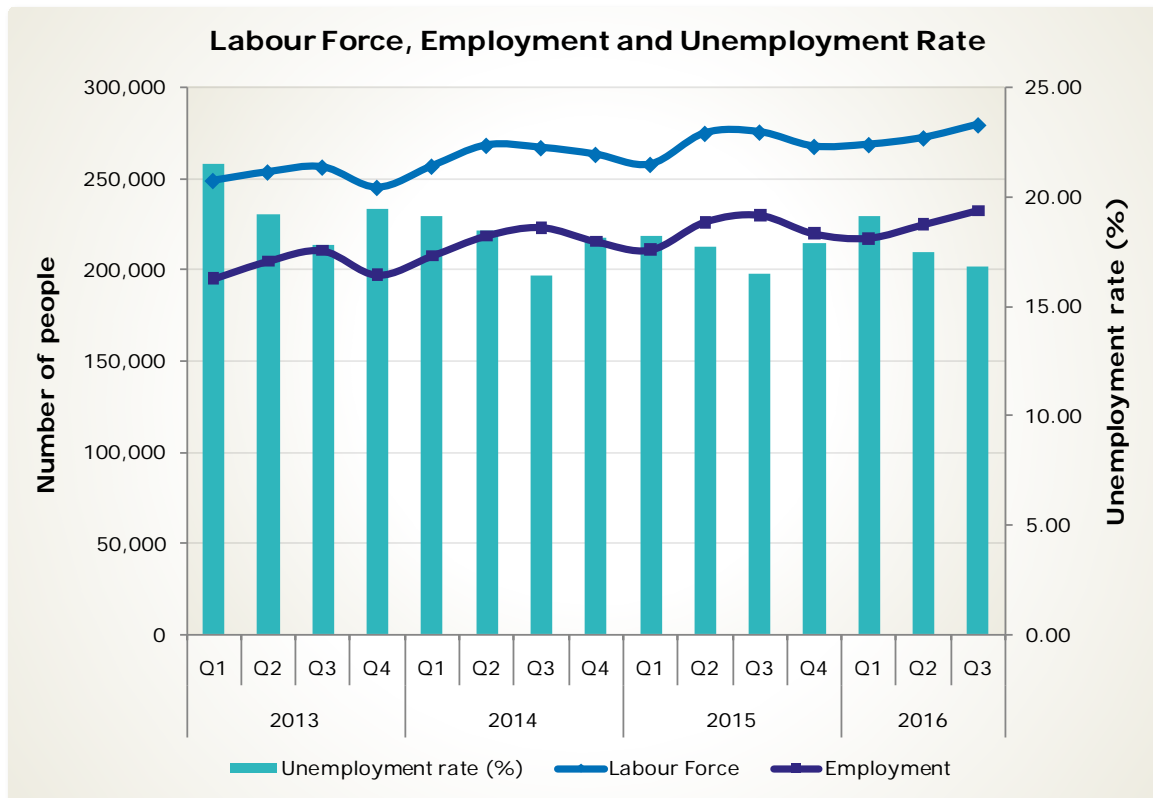
3. LABOUR MARKET

Unemployment rate at 16.9%, wages up 4.8% y/y in Q3 2016

Unemployment in Montenegro grew to 16.9% of the total labour force in Q3 2016 from 16.5% in the corresponding quarter a year ago, according to data of MONSTAT.

The employed population aged 15 years and older was 232,400 people in Q3 2016, up by 1.1% compared to the 229,900 a year earlier.

The youth (population aged 15-24) unemployment rate went down to 33.5% from 34.5%.



Source: MONSTAT

The average monthly net salary in Q3 2016 increased by 5.0% y/y to EUR 501, according to MONSTAT.

Employees in the financial and insurance activities had the highest average monthly net salaries, of EUR 914, followed by the electricity, gas, steam and air conditioning supply with EUR 872, and real estate activities with EUR 731.

The lowest wage, of EUR 311, 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 accommodation and food service activities earned the third lowest wages in the country, of EUR 385.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits grew by 30.4% y/y in Q3 2016

The number of building permits issued in Montenegro in Q3 2016 increased by 30.4% y/y and totalled 249, according to MONSTAT data.

In line with the overall growth, the number of dwellings, covered by the permits, also increased by 13.8% to 827 and their total built-up area expanded to 56,615 sq m from 46,902 sq m.

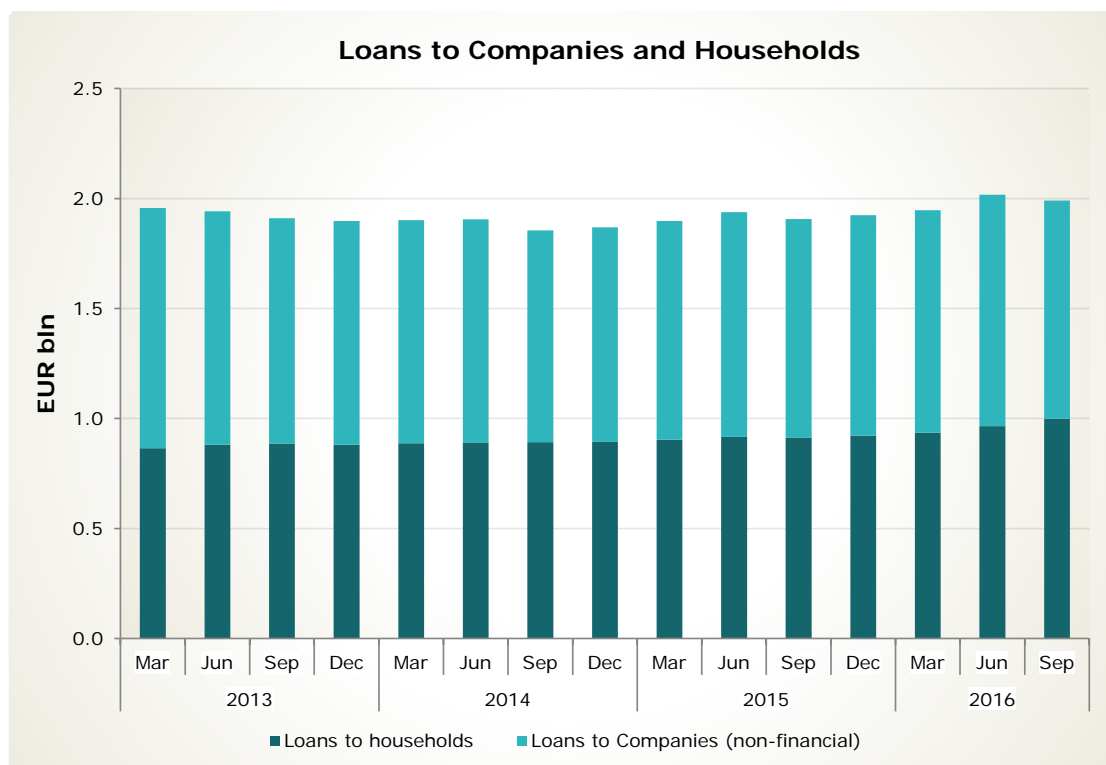
The average dwelling price went down to EUR 1,057 per sq m in Q3 2016 from EUR 1,111 per sq m a year earlier. Among the major cities, the average price was the highest – EUR 1,500 per sq m in coastal Bar, while the lowest average price, of EUR 550 per sq m, was registered in Niksic, western Montenegro.

5. BANKING AND INSURANCE

Household loans inched down by 0.1% y/y at end-Sept 2016

Loans to the non-government and non-financial sector totalled EUR 1.990 bln as of September 2016, up by 4.4% y/y, according to Central bank of Montenegro (CBCG).

Household loans grew by 9.3% to EUR 998.9 mln, accounting for 50.2% of the total loans to the non-government and non-financial sector, while corporate loans went down by 0.1% to EUR 991.2 mln, thus slicing a 49.8% share.



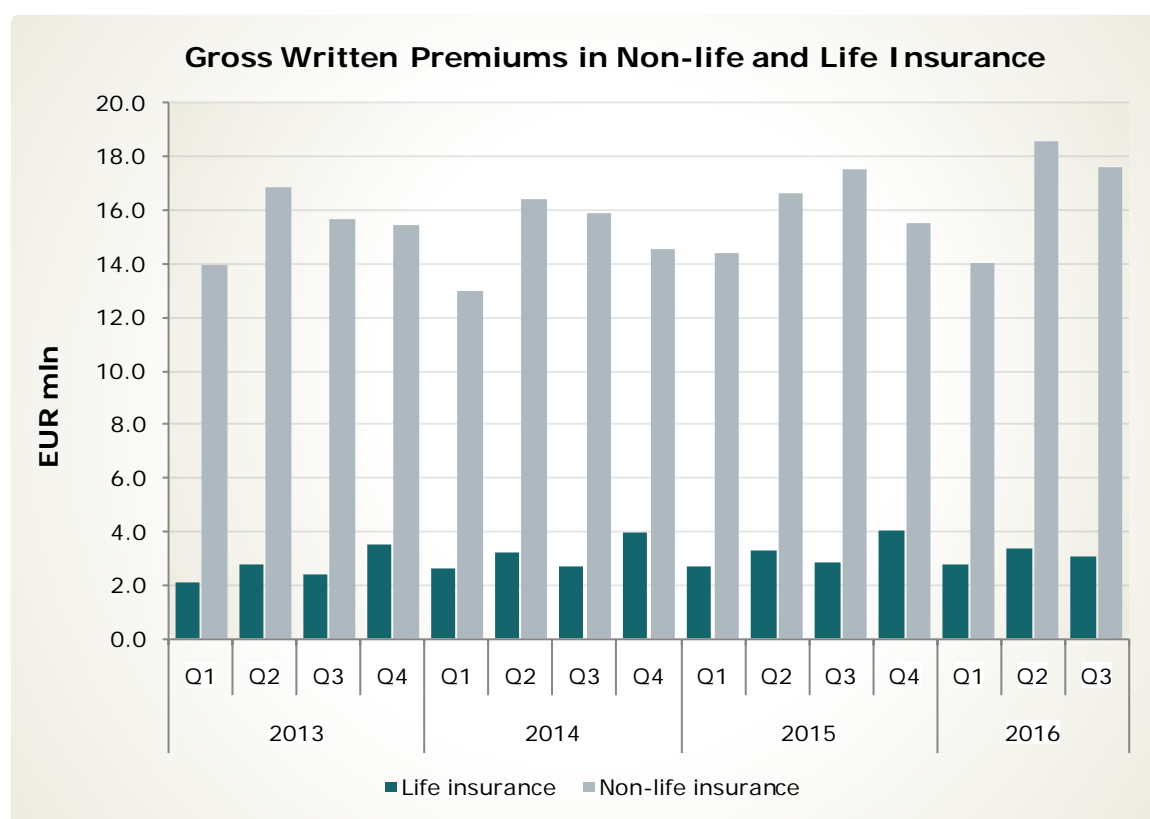
Source: CBCG

The total assets of the banking system reached EUR 3.740 bln at the end of September 2016 versus EUR 3.487 bln a year earlier. Among the liabilities, the sum of deposits also grew – to EUR 2.854 bln from EUR 2.624 bln in September 2015.

Insurance premiums went up 1.6% y/y in Q3 2016

The total gross written premiums of the Montenegrin non-life and life insurance companies stood at EUR 20.667 mln, up by 1.6% y/y, in the third quarter of 2016, according to the country's Insurance Supervision Agency (ANO).

The premiums of the non-life insurance market stood at EUR 17.577 mln, or by 0.5% more than a year earlier, while the life insurance sector grew by 8.4% to EUR 3.090 mln.



Source: ANO

6. CAPITAL MARKETS

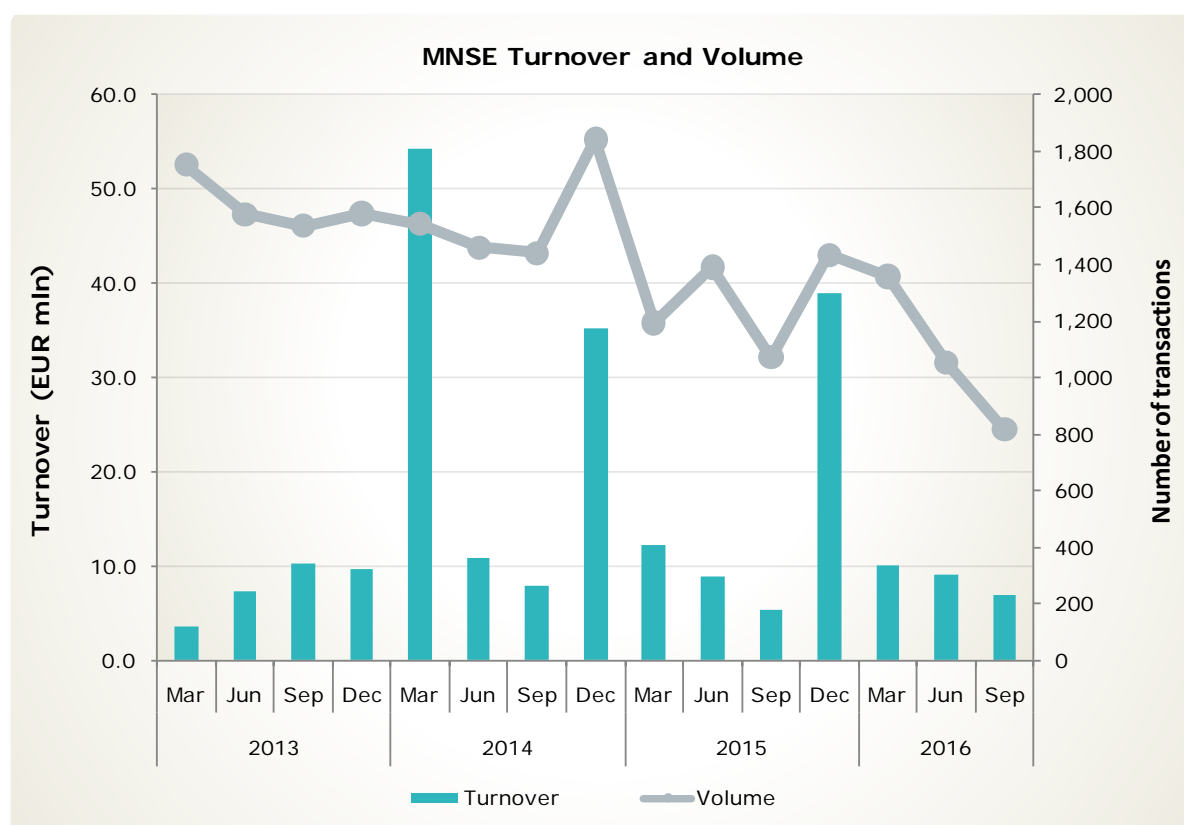
Blue-chip MNSE10* averaged 888 points in Q3 2016

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

In Q3 2016, the value of MNSE10, the blue-chip index of the Montenegro Stock Exchange (MNSE), averaged 888 points, compared to a base value of 1,000 points.

MNSE's market capitalization went down by 6.3% y/y to EUR 2.800 bln at end-September 2016.

The total turnover on the bourse expanded to EUR 7.038 mln in Q3 2016 from EUR 5.324 mln a year earlier.



Source: MNSE

7. EXTERNAL SECTOR

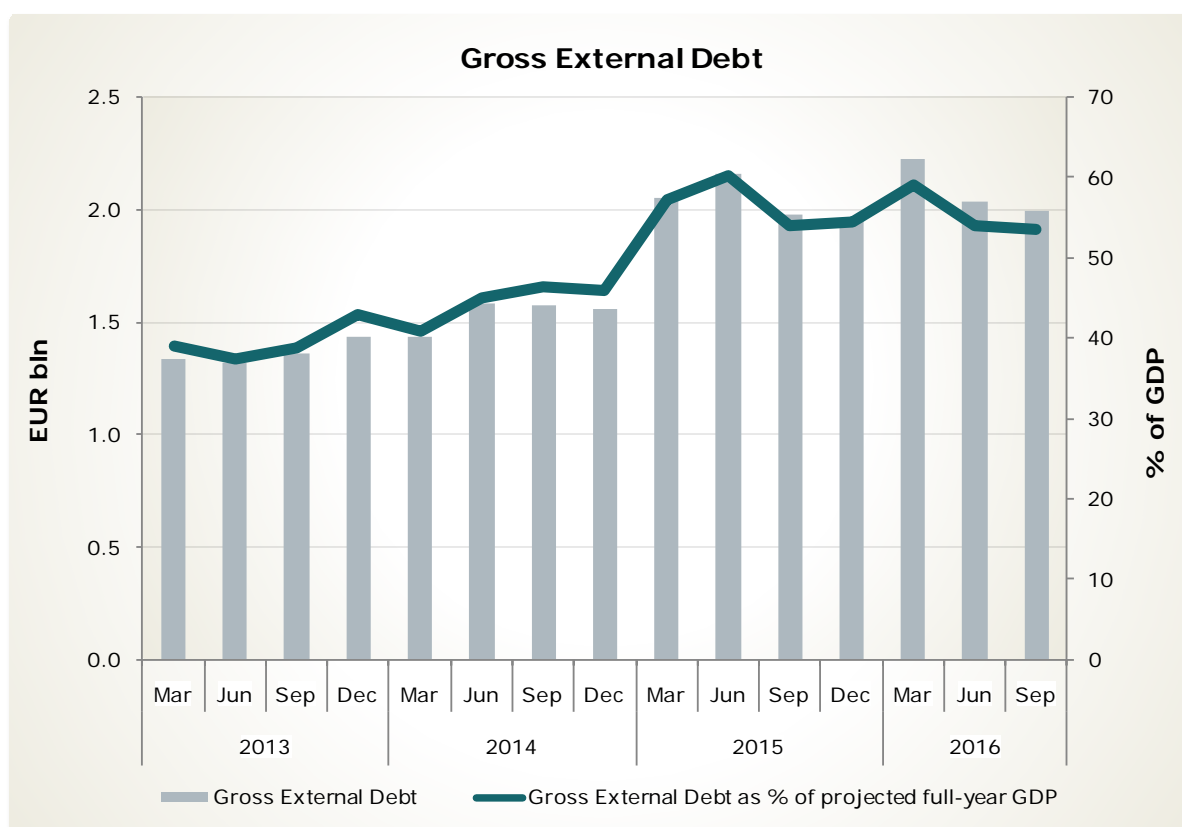
7.1. FOREIGN DEBT

The gross external debt grew annually to EUR 1.995 bln at end-September 2016

The gross external debt increased to EUR 1.995 bln at the end of September 2016, up by 1.0% or EUR 20.2 mln, compared to a year earlier, according to CBCG. The gross external debt accounted for 53.5% of the projected full-year GDP.

The largest share, 54.6%, in the total gross external debt had Eurobonds, followed by debts to the International Bank for Reconstruction and Development (IBRD), which made up 10.9% of the total and Credit Suisse Bank with a 6.4% share in the total debt.

Government debt increased by 0.2% to EUR 2.309 bln at end-September 2016.



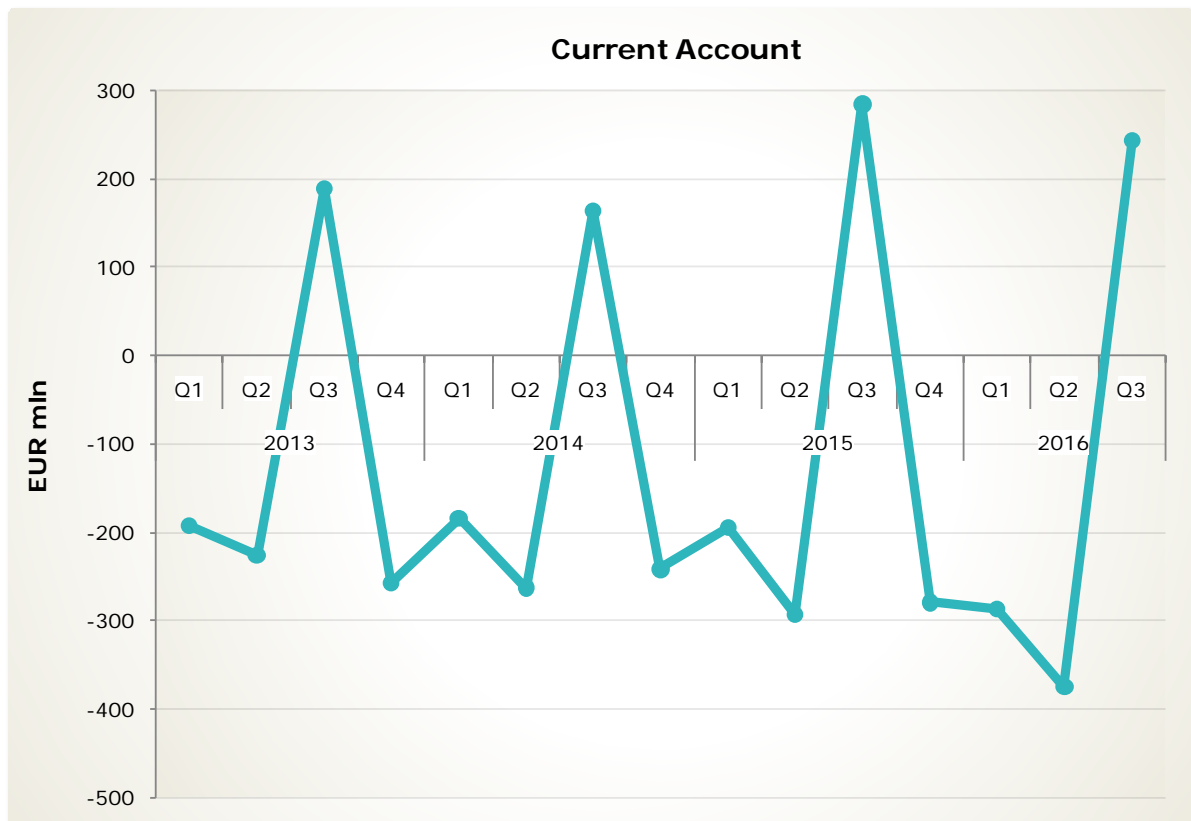
Source: CBCG

7.2. BALANCE OF PAYMENTS

Current account surplus at EUR 244.1 mln in Q3 2016

The current account surplus widened to EUR 244.1 mln in Q3 2016 from EUR 284.2 mln in Q3 2015, according to central bank statistics data.

Secondary income went up to EUR 31.236 mln compared to EUR 23.914 mln in the third quarter of 2015.



Source: CBCG

7.3. FDI

FDI inflow down 4.5% y/y in Jan-Nov 2016

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

FDI went down by 4.5% annually, to EUR 640.8 mln, in the period January – November 2016, according to CBCG data.

In the period under review, Norway was the biggest foreign investor in Montenegro with direct investments of EUR 189.0 mln, Italy came second with EUR 48.970 mln and Russia came third with EUR 47.937 mln.

Inflow in the form of investments in companies and banks and real estate amounted to EUR 159.6 mln and EUR 117.4 mln, respectively. Intercompany debt FDI inflow stood at EUR 172.9 mln and other FDI made up the remaining EUR 190.8 mln.

7.4. FOREIGN TRADE

Foreign trade deficit grew by 9.2% y/y in Q3 2016

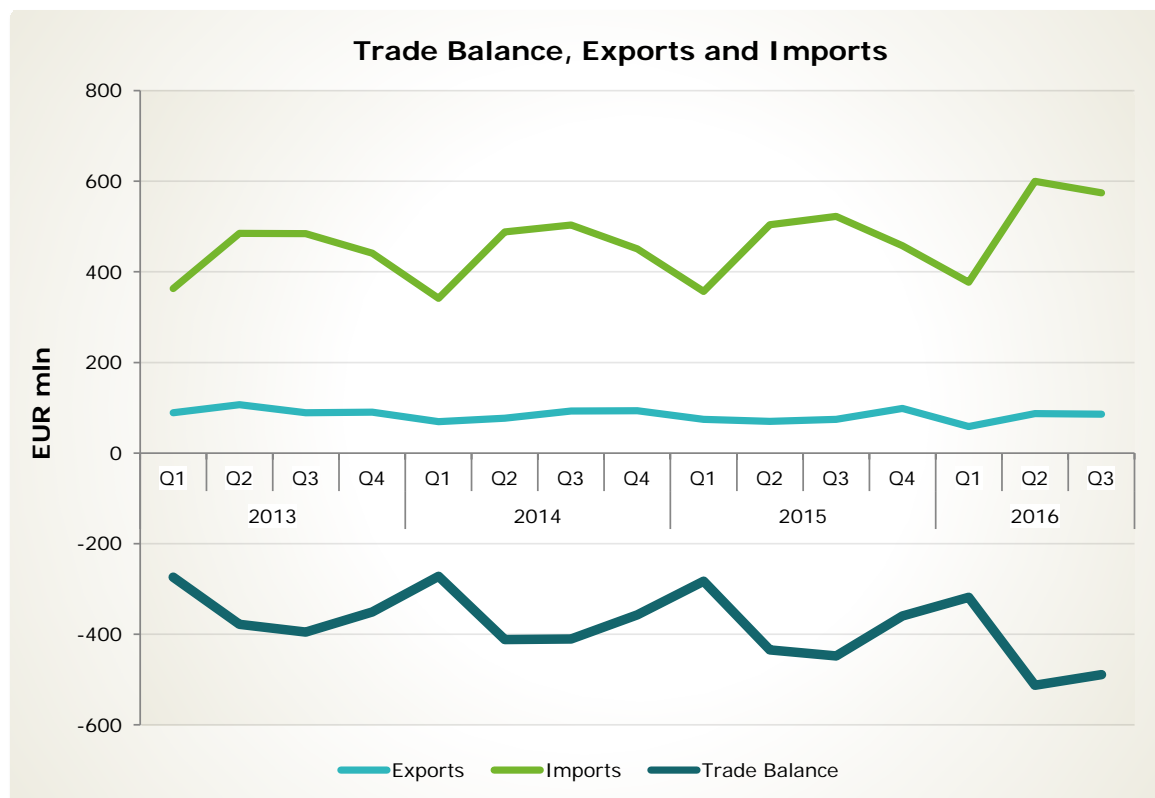
The trade deficit stood at EUR 488.9 mln in Q3 2016, compared to EUR 447.7 mln in Q3 2015, according to CBCG.

Montenegro's most exported goods in Q3 2016 were non-ferrous metals – EUR 14.293 mln, followed by metalliferous ores and metal scrap – EUR 12.883 mln, and cork and wood – EUR 8.724 mln.

In terms of imports, the leaders were petroleum, petroleum products and related materials – EUR 44.049 mln, electrical machinery, apparatus and appliances – EUR 37.118 mln, and road vehicles – EUR 32.587 mln.

The country's main export markets in Q3 2016 were Serbia, accounting for 21.4% of the total exports, followed by Hungary with a 10.3% share and Bosnia and Herzegovina exports to made up 7.8% of the total.

Germany and Serbia were Montenegro's main trading partners in terms of imports with shares in the total imports of 17.5% and 16.4%, respectively. Imports from Italy had the third largest share, of 8.9%.



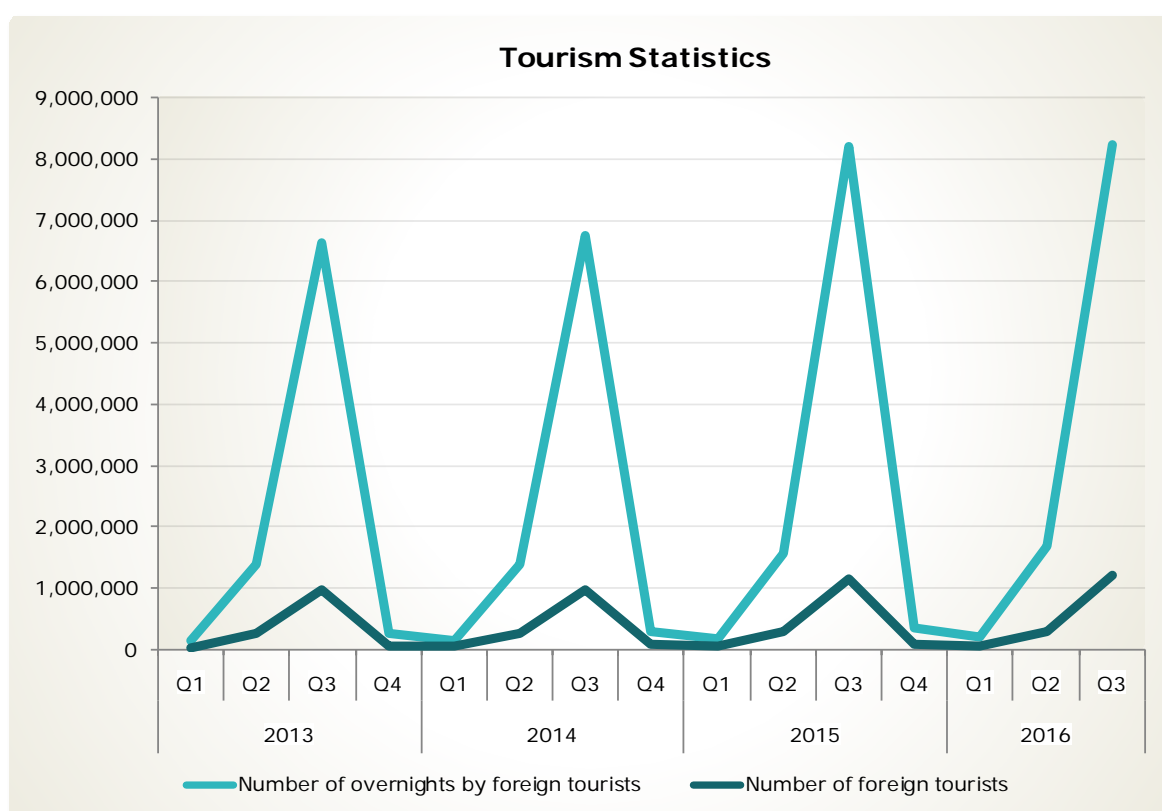
Source: MONSTAT

7.5. TOURSIM

Number of foreign tourist overnights grew by 0.4% y/y in Q3 2016

Tourist overnights of foreigners increased by an annual 0.4% to 8,237,298 in Q3 2016, according to MONSTAT.

The number of foreign tourists also went up - by 5.5% y/y to 1,205,734. Serbians tourists led the ranking, accounting for 25.1% of the total number of tourists visiting Montenegro, followed by Russian with a 19.6% share, and tourists from Bosnia and Herzegovina with a 12.7% share.



Source: MONSTAT

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