

## **MONTENEGRO ECONOMY REPORT**

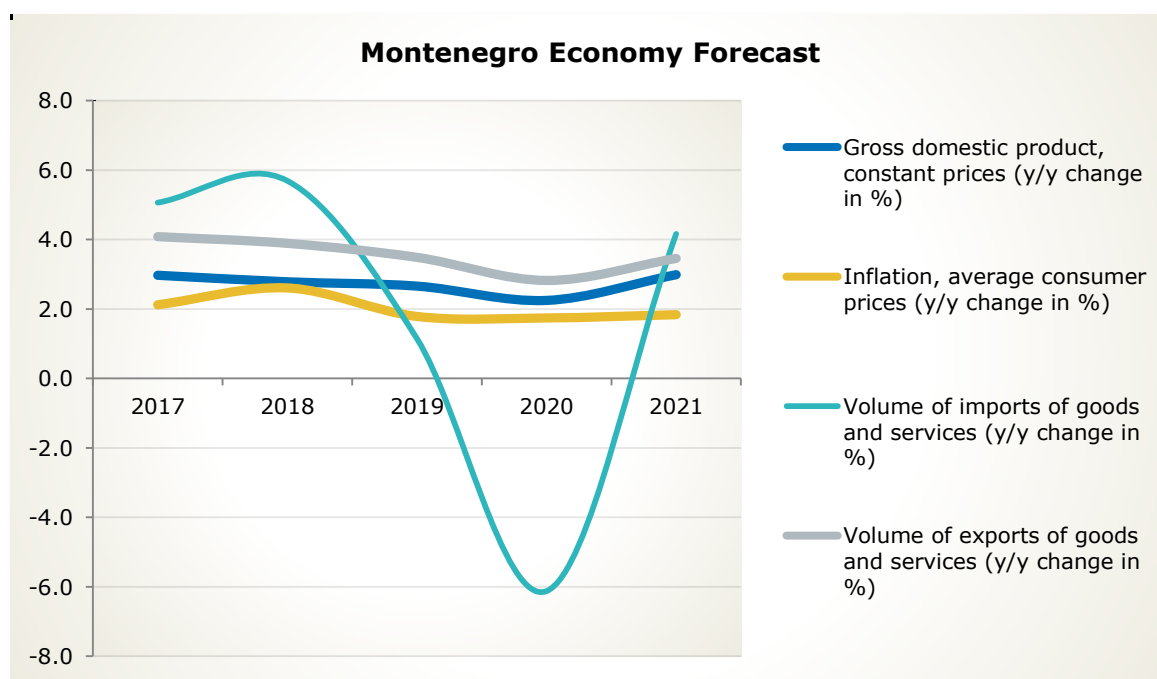
### Q3 2017

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

MONTENEGRO – MACROECONOMIC SNAPSHOT AS OF Q3 2017	
<b>GDP Growth</b>	4.7% y/y
<b>Industrial output</b>	-6.7% y/y
<b>Industrial sales</b>	16.3% y/y
<b>Retail sales</b>	2.4% y/y
<b>Annual inflation</b>	2.4%
<b>Unemployment rate</b>	14.8%
<b>Number of building permits</b>	5.2% y/y
<b>Household loans</b>	10.5% y/y
<b>MNSE10 blue-chip index</b>	-4.4% q/q
<b>Gross External Debt</b>	EUR 2.009 bln
<b>Current account surplus</b>	EUR 250.4 mln
<b>FDI inflow</b>	EUR 95.3 mln
<b>Foreign trade deficit</b>	EUR 508.4 mln
<b>Number of foreign tourist overnights</b>	7.3% y/y



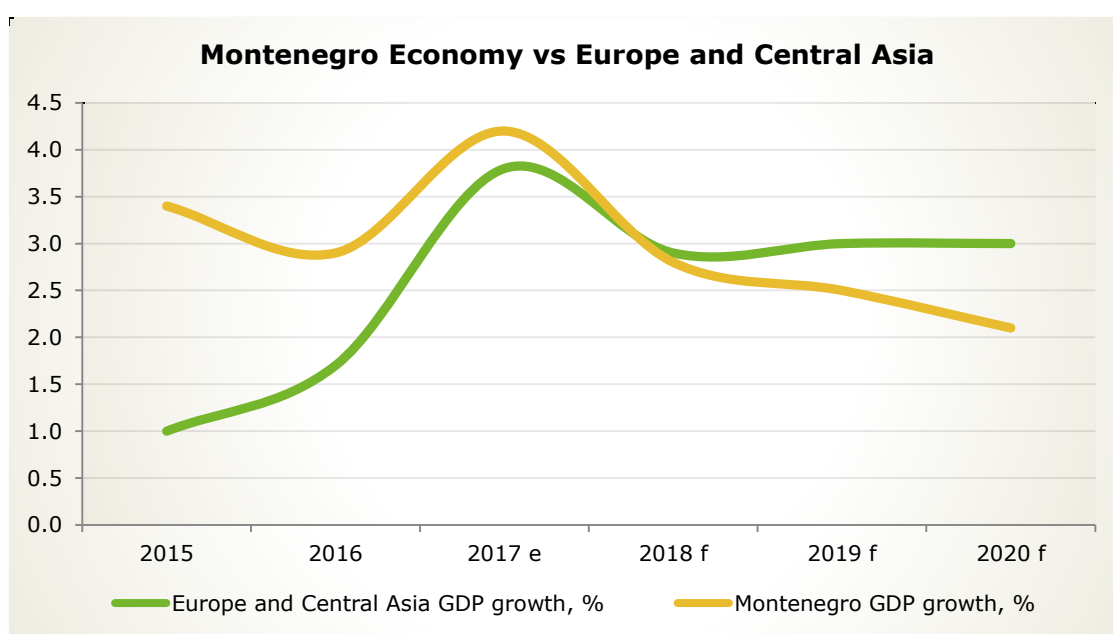
Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2017

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 backed by the positive 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, January 2018

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	1.9	3.9	2.5	4.2	2.8	2.5

sectors)						
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

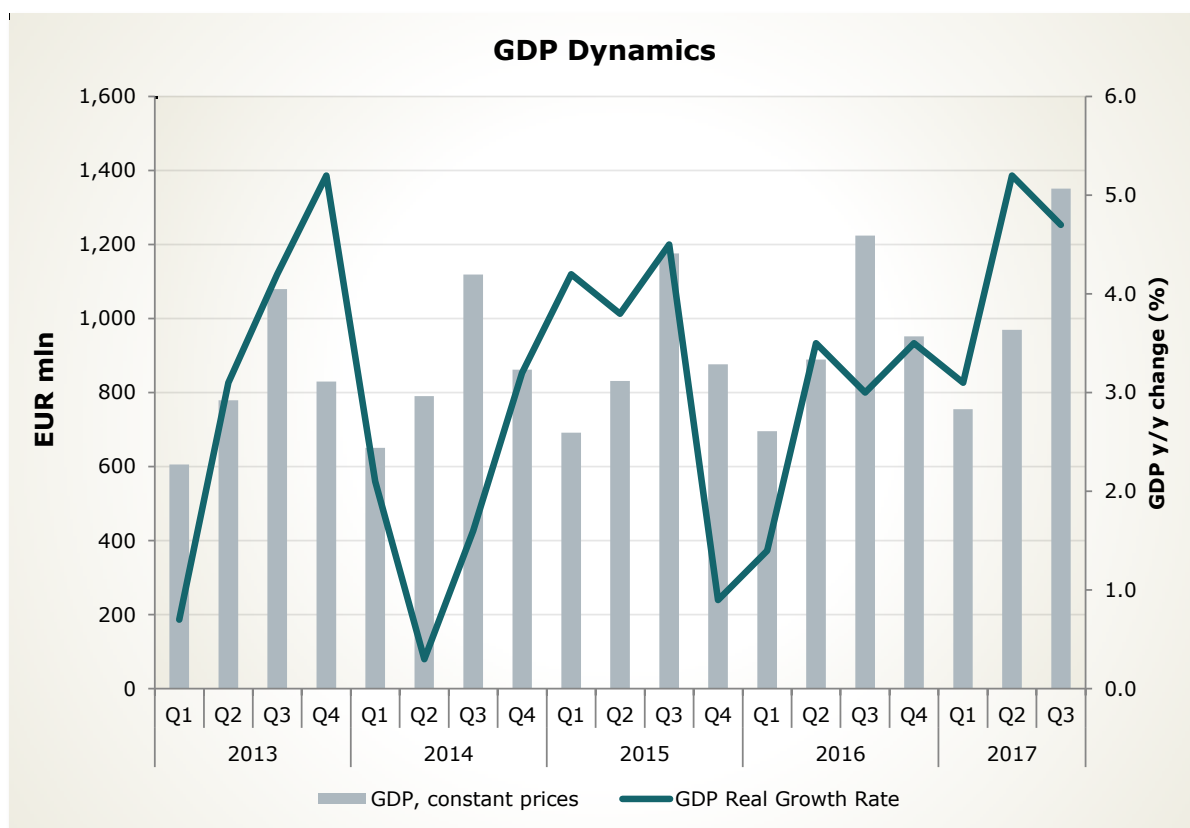
## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### *GDP growth continues to be strong at 4.7% y/y in Q3 2017*

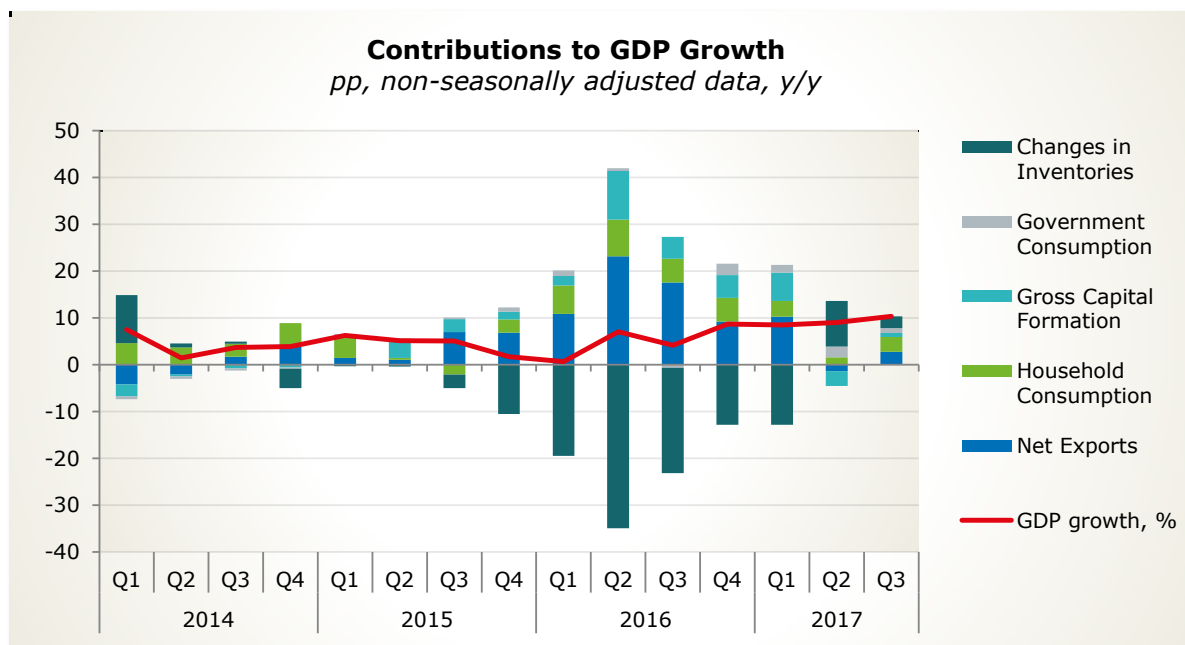
The economy of Montenegro continues to grow at strong rates during the third quarter of 2017. The country's real GDP annual growth was 4.7% in Q3 2017, after 5.2% y/y growth in Q2 2017, according to the Statistical Office of Montenegro (MONSTAT).

The GDP totalled EUR 1.351 bln in constant prices in Q3 2017, compared to EUR 1.224 bln in the same quarter of the previous year.



Source: MONSTAT

Final consumption increased in value terms by 5.9% on the year to EUR 989.0 mln in Q3 2017. Gross capital formation went up by 4.5% to EUR 255.2 mln. Exports grew by 1.8% on the year, and imports by 2.9% compared to Q3 2016.



Source: MONSTAT

## 2.2. INDUSTRIAL OUTPUT

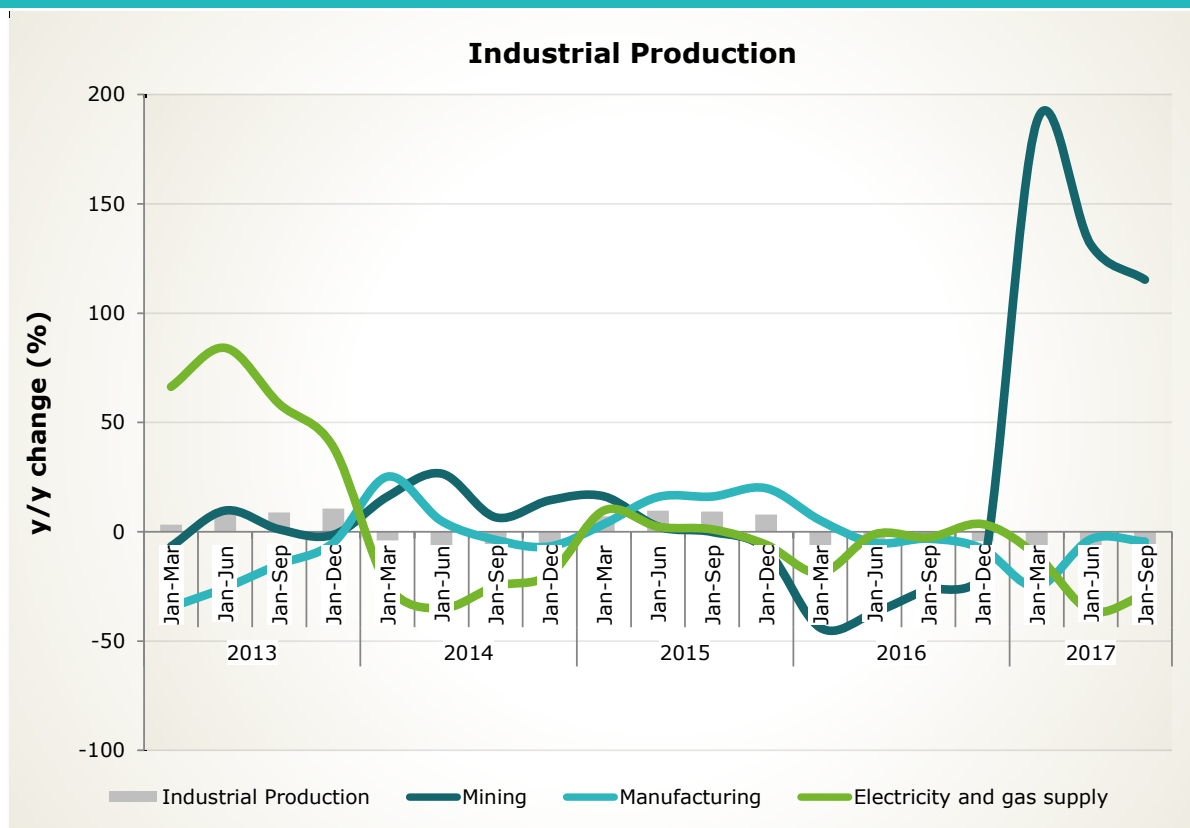
### Industrial output down 6.7% y/y in Jan - Sept 2017

Industrial output went down by 6.7% on the year in Jan - Sept 2017, according to MONSTAT.

The overall fall was caused by the electricity and gas supply industry, which shrank by 28.8% on an annual basis, and the production at manufacturing industry, which fell by 4.5% y/y.

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

Printing and reproduction of recorded media plunged by 47.1% while the manufacture of basic pharmaceutical products decreased by 30.8% y/y in Jan - Sept. Manufacturing of paper and paper products was the fastest growing sector in terms of output, up by 63.5% y/y, followed by manufacturing of furniture with an increase of 57.5% y/y.



Source: MONSTAT

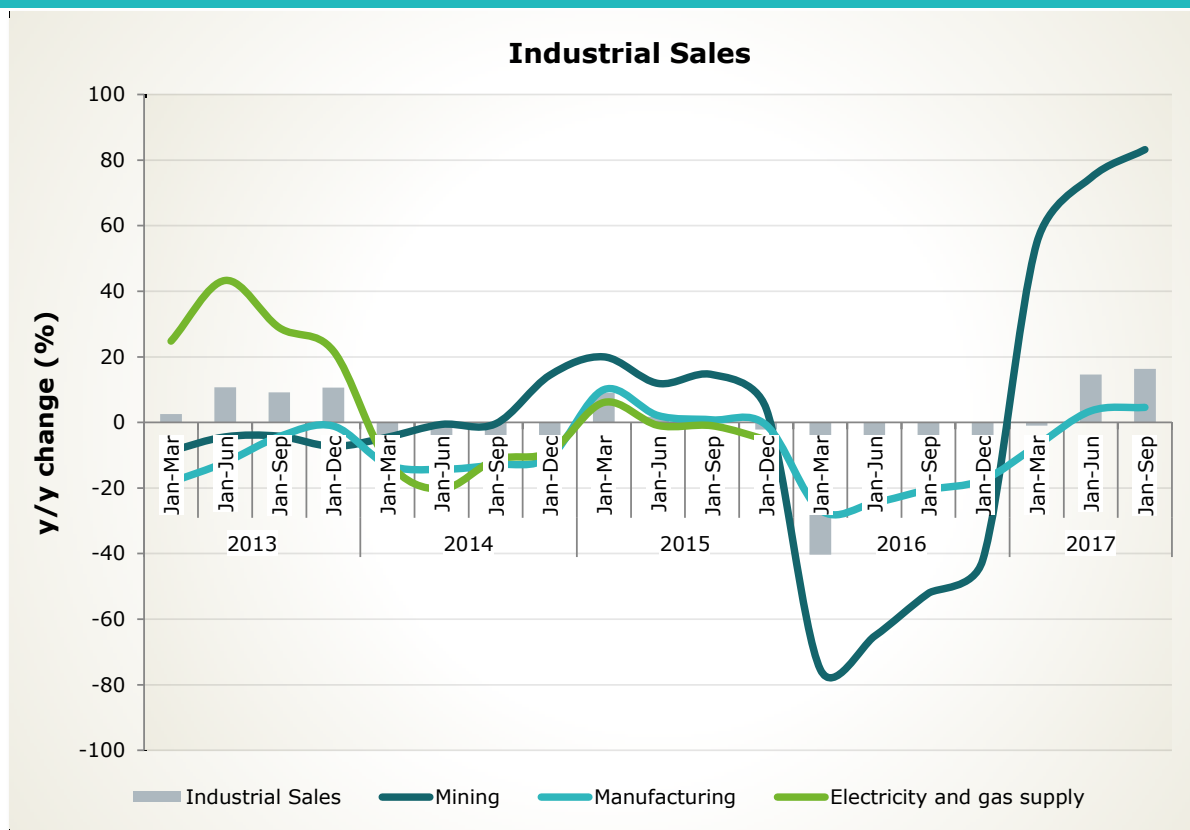
## 2.3. INDUSTRIAL SALES

### Industrial sales increased by 16.3% y/y in Jan – Sept 2017

Industrial sales went up by 16.3% in Q3 2017, according to MONSTAT. Domestic turnover increased by 0.3% y/y on average while the turnover on foreign markets went up by 55.3% y/y during the first nine months of 2017.

The uptrend in the period under consideration was mainly due to the 83.2% increase in the sales of the mining sector. On the other hand, manufacturing industry reported a 4.6% annual rise.

In terms of product groups, turnover in capital goods went down by 17.1% y/y, while turnover of non-durable consumer goods notched up by 1.1% y/y. Energy related production turnover fell by 8.7% y/y. Consumer durables almost doubled their turnover in comparison to Jan – Sept 2016.



Source: MONSTAT

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

## 2.4. WHOLESALE/RETAIL

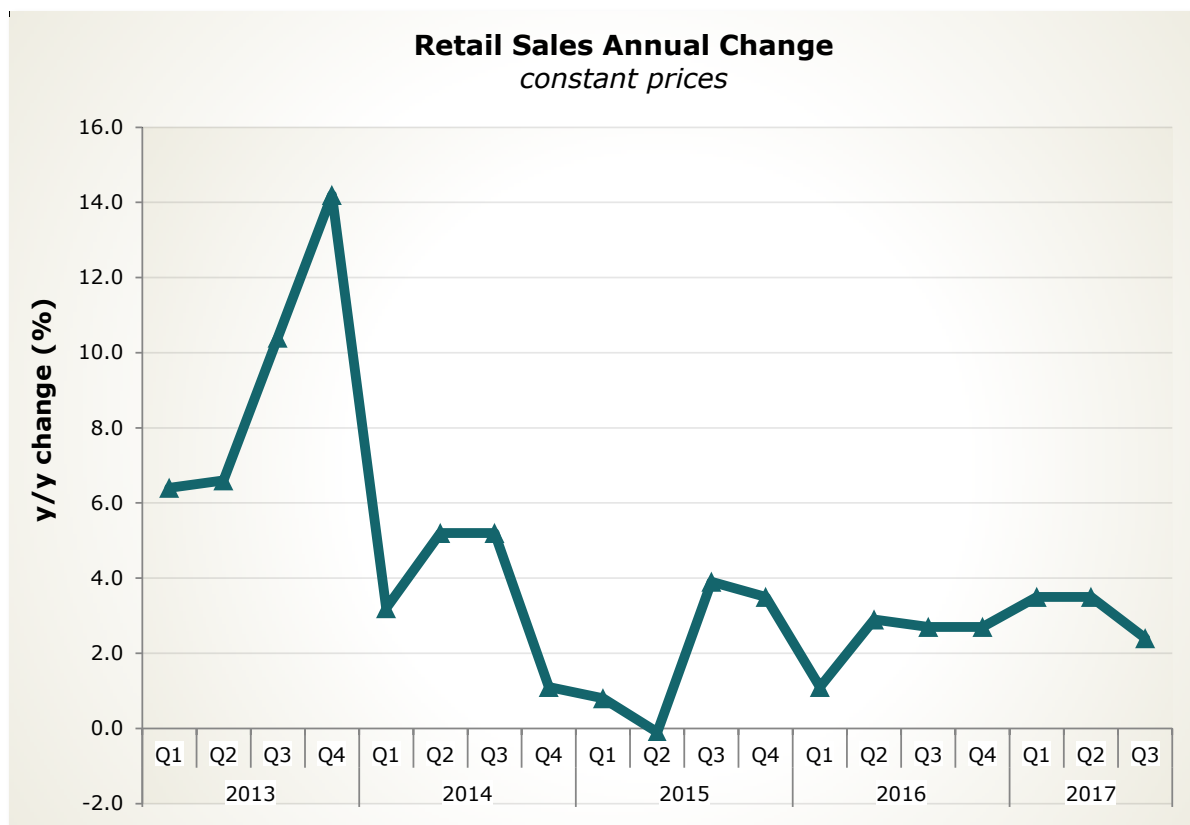
### Retail sales grew 2.4% y/y in Q3 2017

Retail sales went up by 2.4% in constant prices in Q3 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 in secondhand shops more than doubled its turnover compared to Q3 2016. Automotive fuel and pharmaceutical, medical, cosmetic and toilet preparations were the other two product groups to report steep annual increases - by 68.4% and 49.6%, respectively.





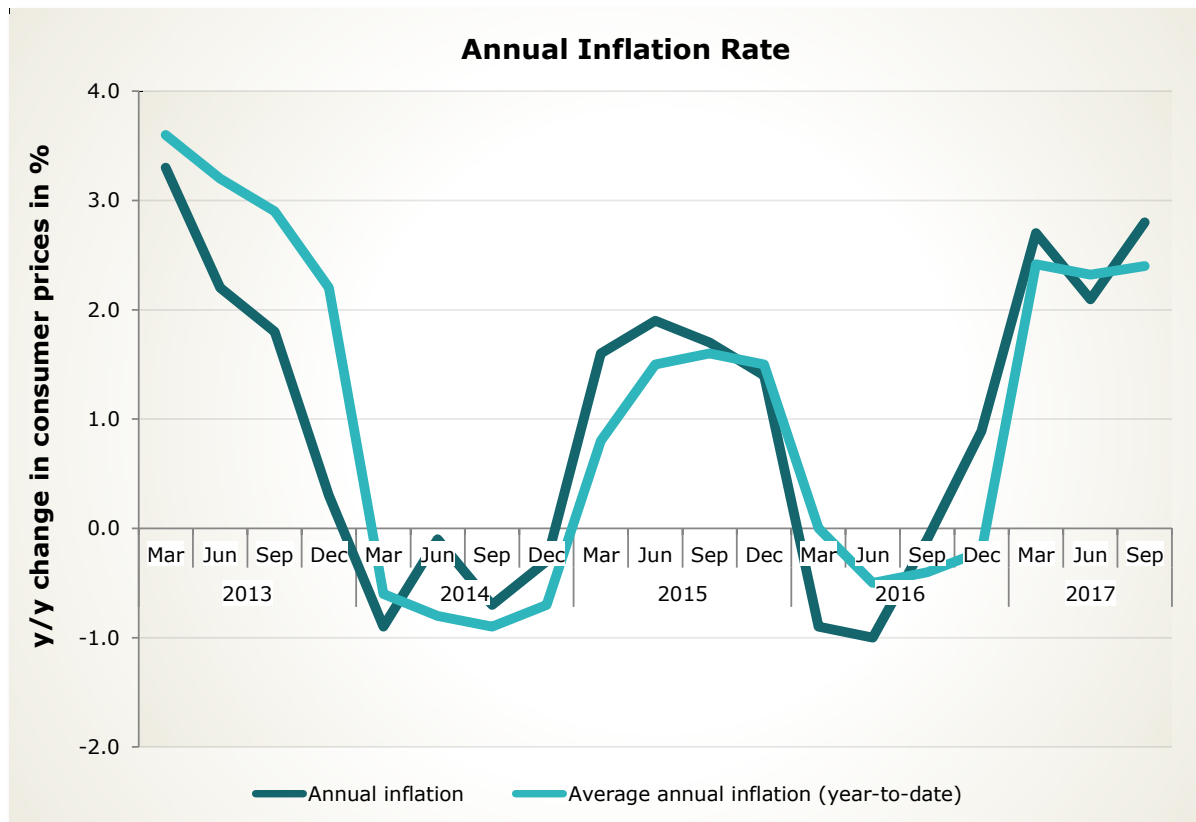
Source: MONSTAT

## 2.5. INFLATION

### Average inflation of 2.4% y/y in Jan - Sept 2017

Montenegro registered an average annual inflation of 2.4% in Q3 2017, according to MONSTAT data.

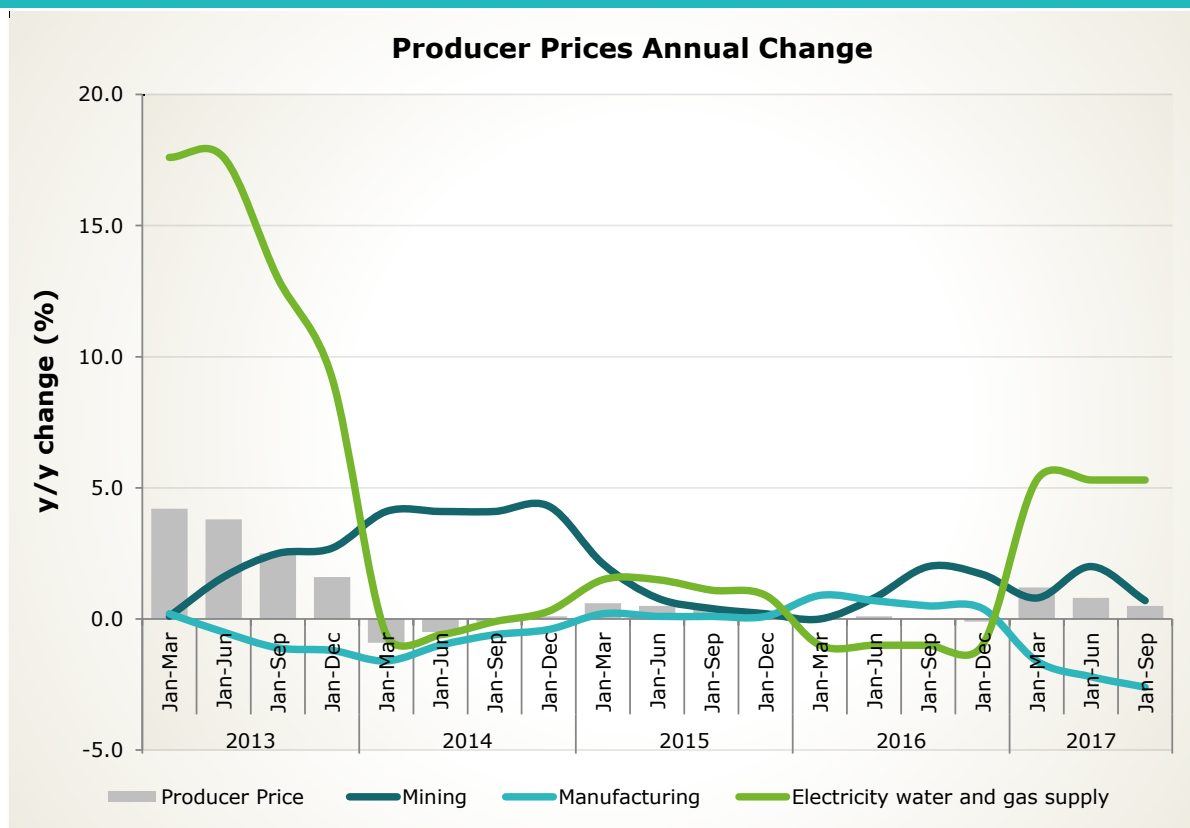
Segment wise, the highest annual increase in consumer prices, of 7.0%, was registered in transport, while furnishing, household equipment and routine household maintenance prices dropped the most – by 1.3%.



Source: MONSTAT

Producer prices inched up by 0.5% in Jan - Sept 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 2.6%.

Looking by segments, producer prices grew the most, by 6.5%, in the manufacturing of wearing apparel, while the sharpest decline, of 8.3%, was registered by manufacture of basic pharmaceutical products and preparations.



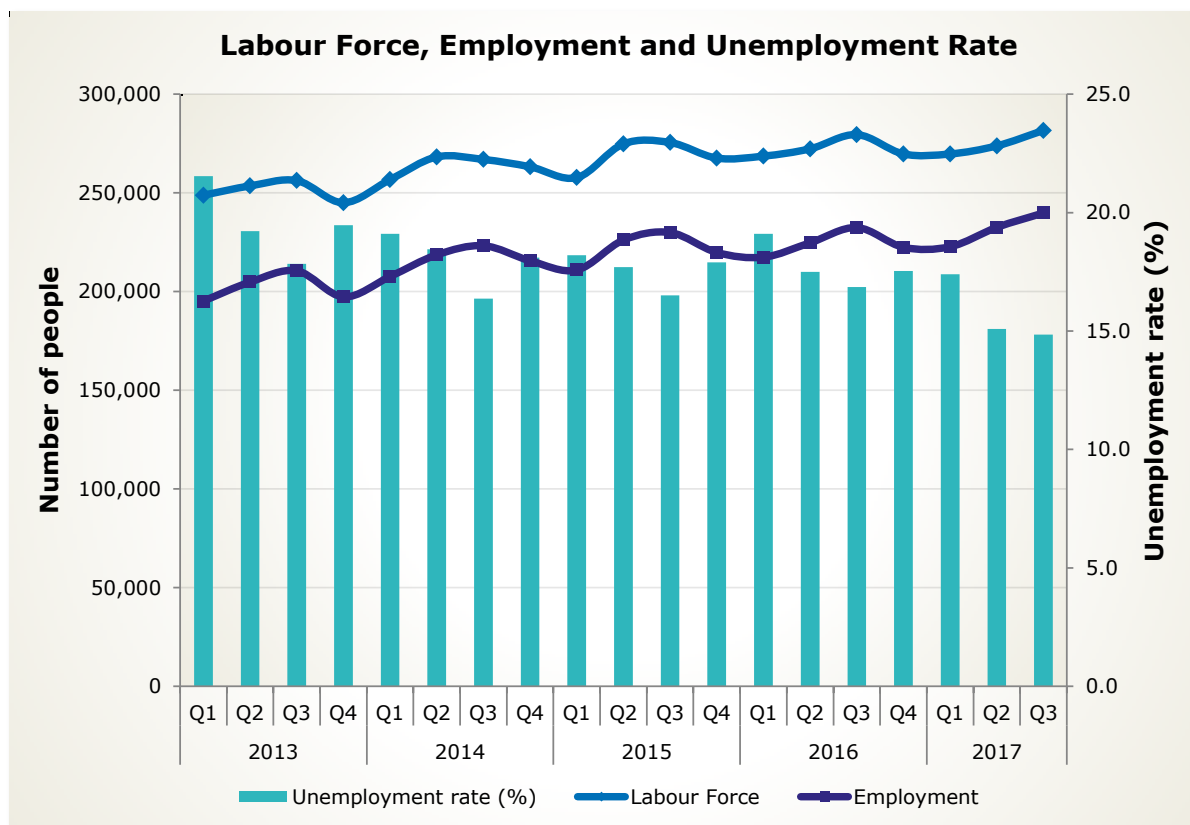
### 3. LABOUR MARKET

#### *Unemployment rate at 14.8%, wages up 1.5% y/y in Q3 2017*

Unemployment in Montenegro fell to 14.8% of the total labour force in Q3 2017 from 16.9% in Q3 2016 and 15.1% in Q2 2017, according to data of MONSTAT.

The employed population aged 15 years and older was 239,800 people in Q3 2017, up by 3.2% compared to the 232,400 a year earlier.

The youth (population aged 15-24) unemployment rate went down to 27.5% y/y from 33.5% in Q3 2016.



Source: MONSTAT

According to MONSTAT, the average monthly net salary in Q3 2017 increased by 1.5% y/y to EUR 508.

## 4. CONSTRUCTION AND REAL ESTATE

### *The number of building permits grew by 5.2% y/y in Q3 2017*

The number of building permits issued in Montenegro in Q3 2017 increased by 5.2% y/y and totalled 262, according to MONSTAT data.

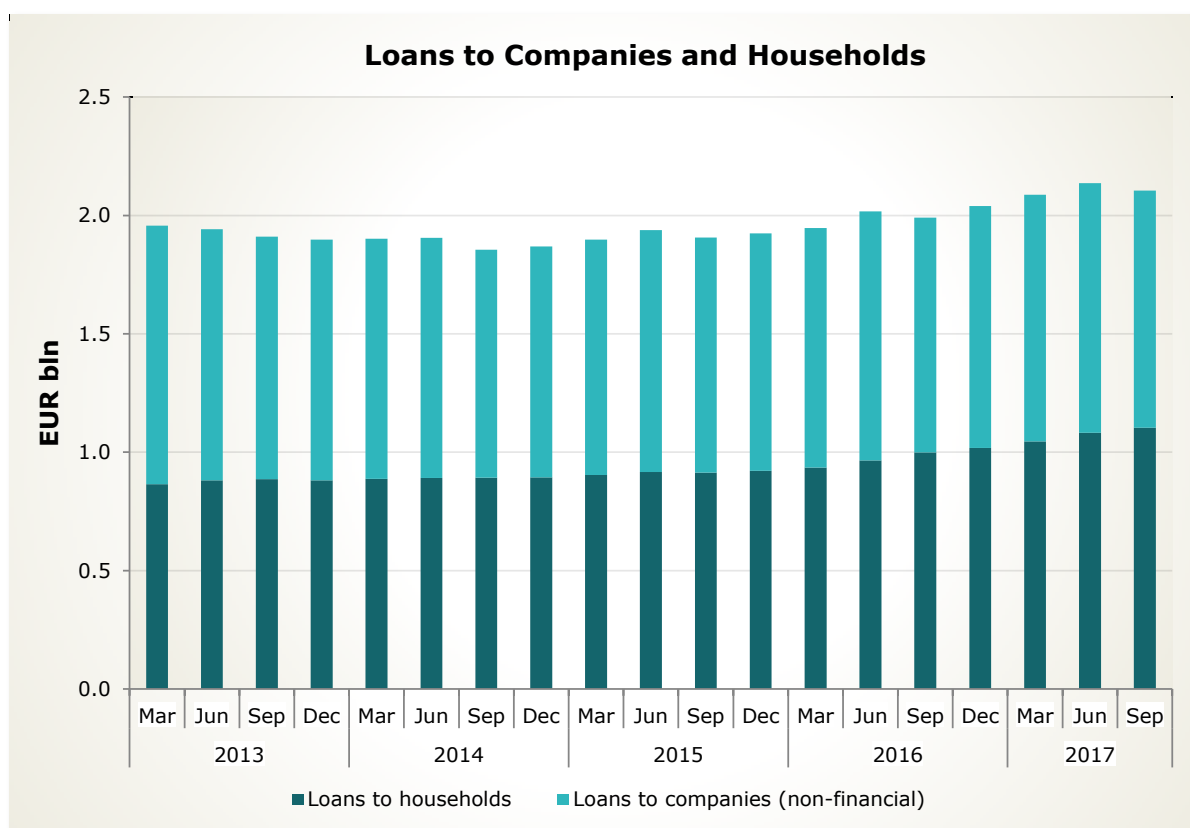
In line with the overall growth, the number of dwellings, covered by the permits, also increased nearly twofold to 1,508 and their total built-up area scaled up to 101,113 sq m from 56,615 sq m.

## 5. BANKING AND INSURANCE

### *Household loans grew by 10.5% y/y at end-September 2017*

Loans to the non-government and non-financial sector totalled EUR 2.104 bln as of September 2017, up by 5.7% y/y, according to Central bank of Montenegro (CBCG).

Household loans grew by 10.5% to EUR 1.104 bln, accounting for 52.4% of the total loans to the non-government and non-financial sector, while corporate loans inched up by 1.0% to EUR 1.001 bln, slicing a 47.6% share.

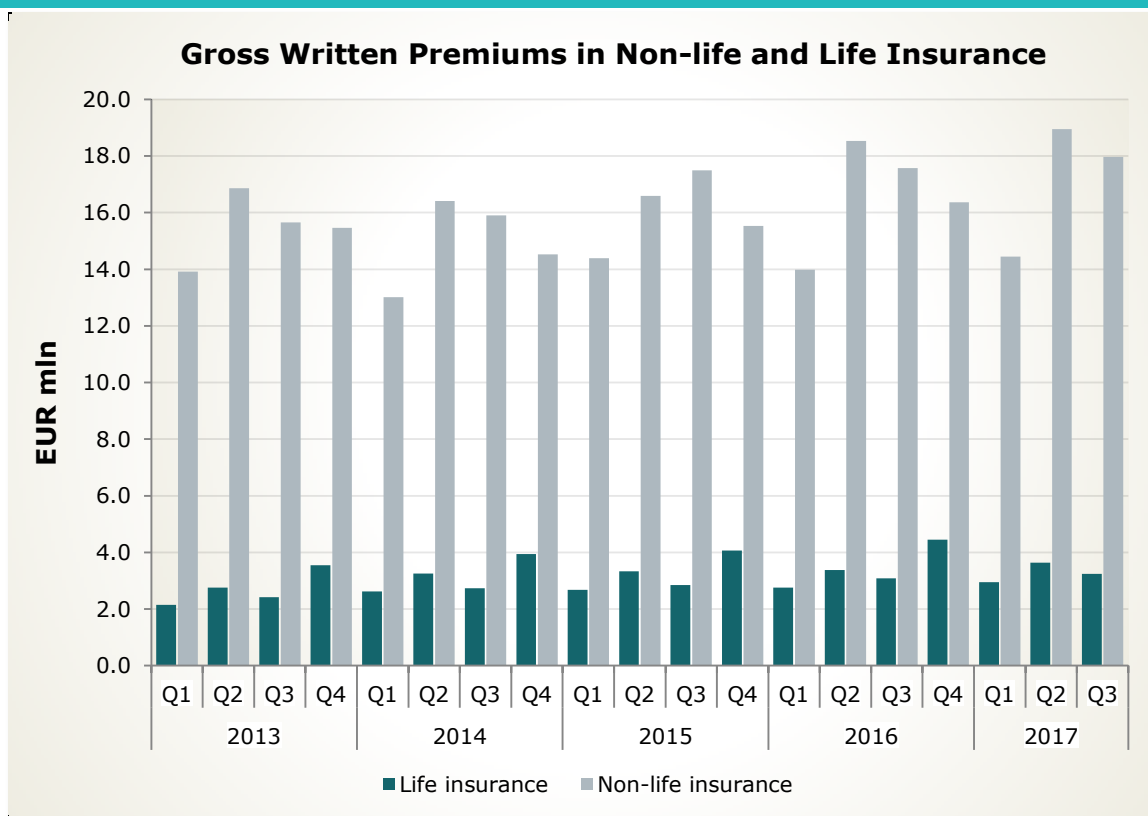


Source: CBCG

### *Insurance premiums went up 2.6% y/y in Q3 2017*

The total gross written premiums of the Montenegrin non-life and life insurance companies stood at EUR 21.211 mln, up by 2.6% y/y, in Q3 2017, according to the country's Insurance Supervision Agency (ANO).

The premiums of the non-life insurance market stood at EUR 17.964 mln, or by 2.2% more than a year earlier, while the life insurance sector grew by 5.1% to EUR 3.248 mln.



Source: ANO

## 6. CAPITAL MARKETS

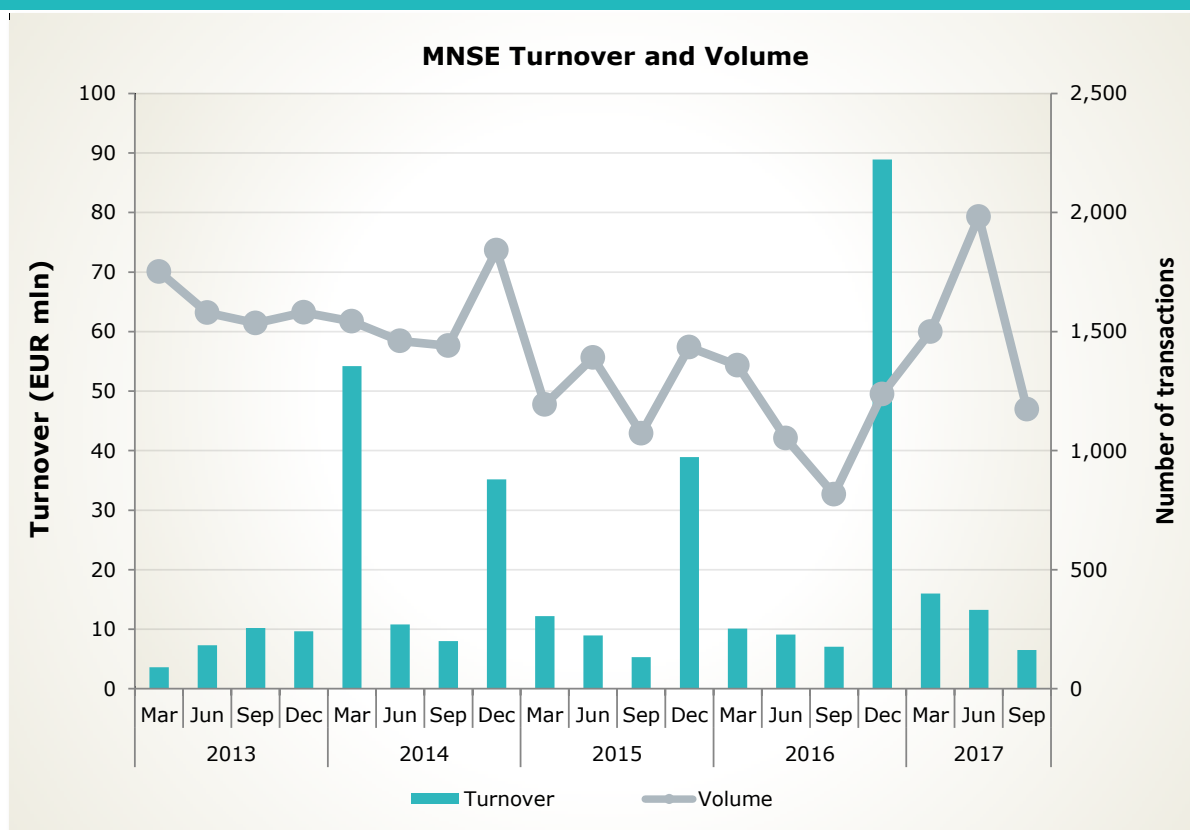
### Blue-chip MNSE10\* averaged 838 points in Q3 2017

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

In Q3 2017, the value of MNSE10, the blue-chip index of the Montenegro Stock Exchange (MNSE), averaged 838 points, down 5.6% y/y from 888 points in Q3 2016 and 4.4% lower compared to the previous quarter Q2 2017.

MNSE's market capitalization went up by 1.6% y/y to EUR 2.843 bln at end-September 2017.

The total turnover on the bourse fell to EUR 6.507 mln in Q3 2017 from EUR 7.038 mln a year earlier.



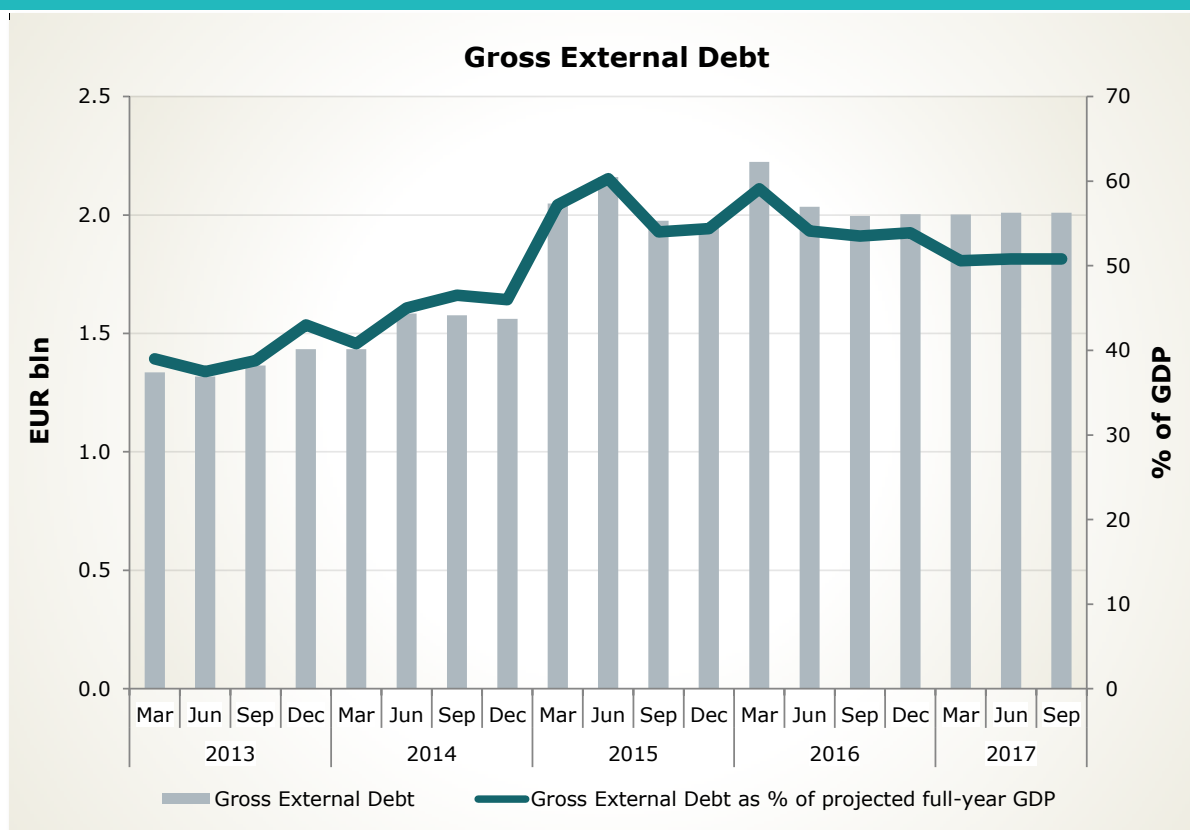
Source: MNSE

## 7. EXTERNAL SECTOR

### 7.1. FOREIGN DEBT

*The gross external debt increased annually to EUR 2.009 bln at end-September 2017*

The gross external debt expanded to EUR 2.009 bln at the end of September 2017, up by 0.7% or EUR 13.7 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

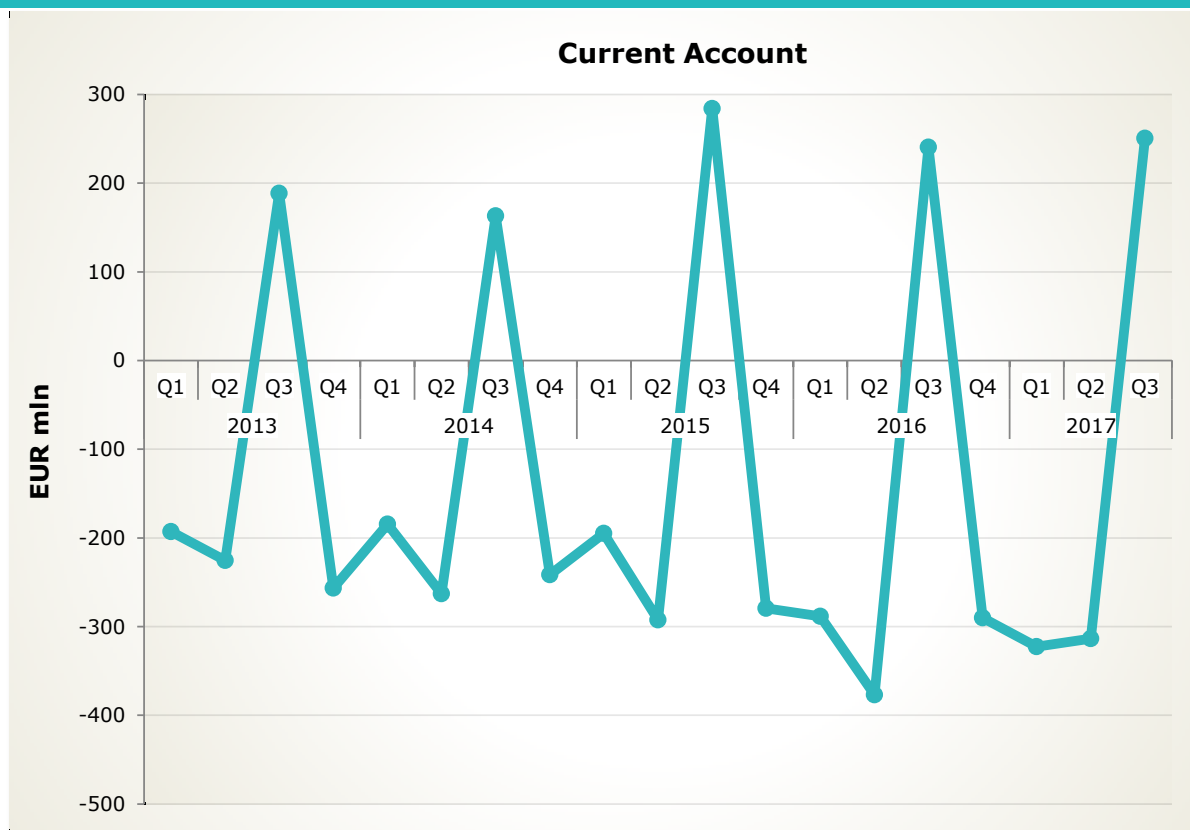
## 7.2. BALANCE OF PAYMENTS

### Current account surplus at EUR 250.4 mln in Q3 2017

The current account surplus expanded to EUR 250.4 mln in Q3 2017 from EUR 240.5 mln in Q3 2016, according to central bank statistics data.

Secondary income went down to EUR 26.6 mln compared to EUR 31.2 mln in Q3 2016.





Source: CBCG

## 7.3. FDI

### Net FDI inflow at EUR 95.3 mln in Q3 2017

During the third quarter of 2017, net FDI in Montenegro amounted EUR 95.3 mln, according to CBCG data. This is a decrease from the net FDI inflow of EUR 129.1 mln in Q3 2016.

## 7.4. FOREIGN TRADE

### Foreign trade deficit grew by 3.8% y/y in Q3 2017

The trade deficit stood at EUR 508.4 mln in the third quarter of 2017, up 3.8% y/y, according to CBCG.

Exports increased by 24.6% y/y to EUR 106.9 mln, while imports went up by 6.9% y/y to EUR 615.3 mln. The coverage of imports by exports was 17.4%, slightly higher compared to the coverage for the same period of previous year - 14.9%.

Main trading partners in exports were Serbia - EUR 15.7 mln, Bosnia and Herzegovina - EUR 12.0mln and Lithuania - EUR 11.1 mln. Main trading partners in imports were Serbia - EUR 146.7 mln, Germany - EUR 47.8 mln and Bosnia and Herzegovina - EUR 45.9 mln.



Source: MONSTAT

## 7.5. TOURSIM

### *Number of foreign tourist overnights increased by 7.3% y/y in Q3 2017*

Tourist overnights of foreigners rose by an annual 7.3% to 2,169,207 in the third quarter of 2017, according to MONSTAT. The number of foreign tourists grew even faster, at a rate of 16.4% y/y. The share of foreign visitors in total overnights in Montenegro remained very high, at 92.4%, traditionally for the period July – September, when international seaside tourism dominates in the country.



Source: MONSTAT

## 8. MAJOR DEVELOPMENTS

### **EBRD mulls lending EUR 59.7 mln to owners of 3 shopping centres in W. Balkans**

Sept 26, 2017

The European Bank for Reconstruction and Development (EBRD) is considering the provision of up to EUR 59.7 mln in loans to Macedonia's Balfin MK, Montenegro's Delta M CG and Serbia's Preduzece Delta City, owners of three shopping centres.

[Read the full story here](#)

### **Montenegro seeks to keep EUR as national currency in EU talks**

Sept 13, 2017

Montenegro will aim to keep the EUR as its national currency during its membership negotiations with the European Union, local media reported.

[Read the full story here](#)

### **Montenegro implements IMF's e-GDDS system**

Sept 7, 2017

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The International Monetary Fund (IMF) said Montenegro has completed the implementation of the Enhanced General Data Dissemination System (e-GDDS).

*Read the full story [here](#)*

***EBRD to support SMEs, renewable energy projects in Montenegro***

*Sept 5, 2017*

The European Bank for Reconstruction and Development (EBRD) plans to focus on supporting the competitiveness of small and medium-sized enterprises (SMEs) and renewable energy projects in Montenegro, the vice president of the bank, Pierre Heilbronn, has said.

*Read the full story [here](#)*

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