

MONTENEGRO ECONOMY REPORT

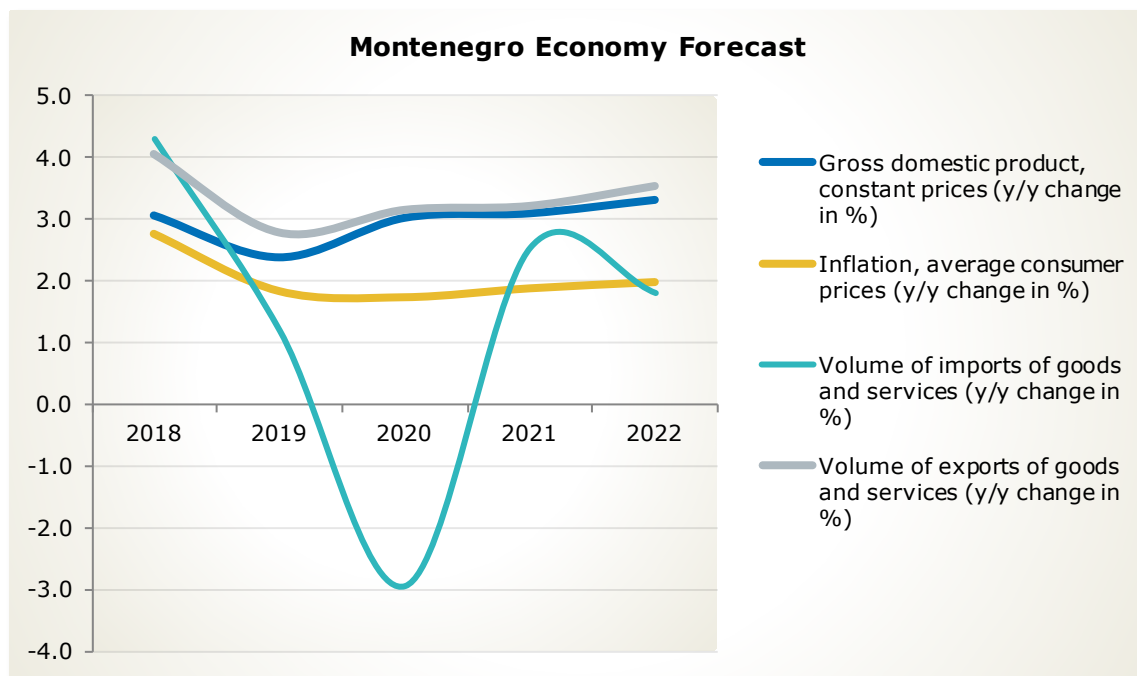
Q3 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

MONTENEGRO – MACROECONOMIC SNAPSHOT AS OF Q3 2018	
GDP Growth	5.0% y/y
Industrial output	24.4% y/y
Industrial sales	19.2% y/y
Retail sales	1.7% y/y
Average annual inflation	2.9%
Unemployment rate	14.1%
Number of building permits	-79.0% y/y
Household loans	10.7% y/y
MNSE10 blue-chip index	2.0% q/q
Gross External Debt	EUR 2.701 bln
Current account surplus	EUR 197.5 mln
FDI inflow	EUR 64.8 mln
Foreign trade deficit	EUR 593.0 mln
Number of foreign tourist overnights	5.3% y/y



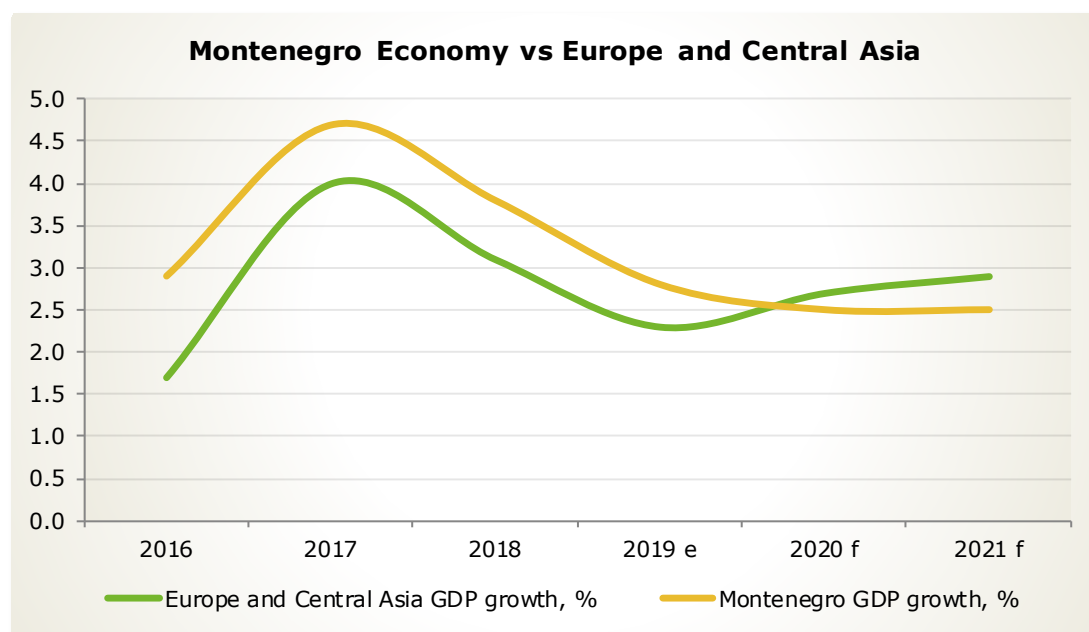
Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2018

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, Global Economic Prospects, January 2019

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

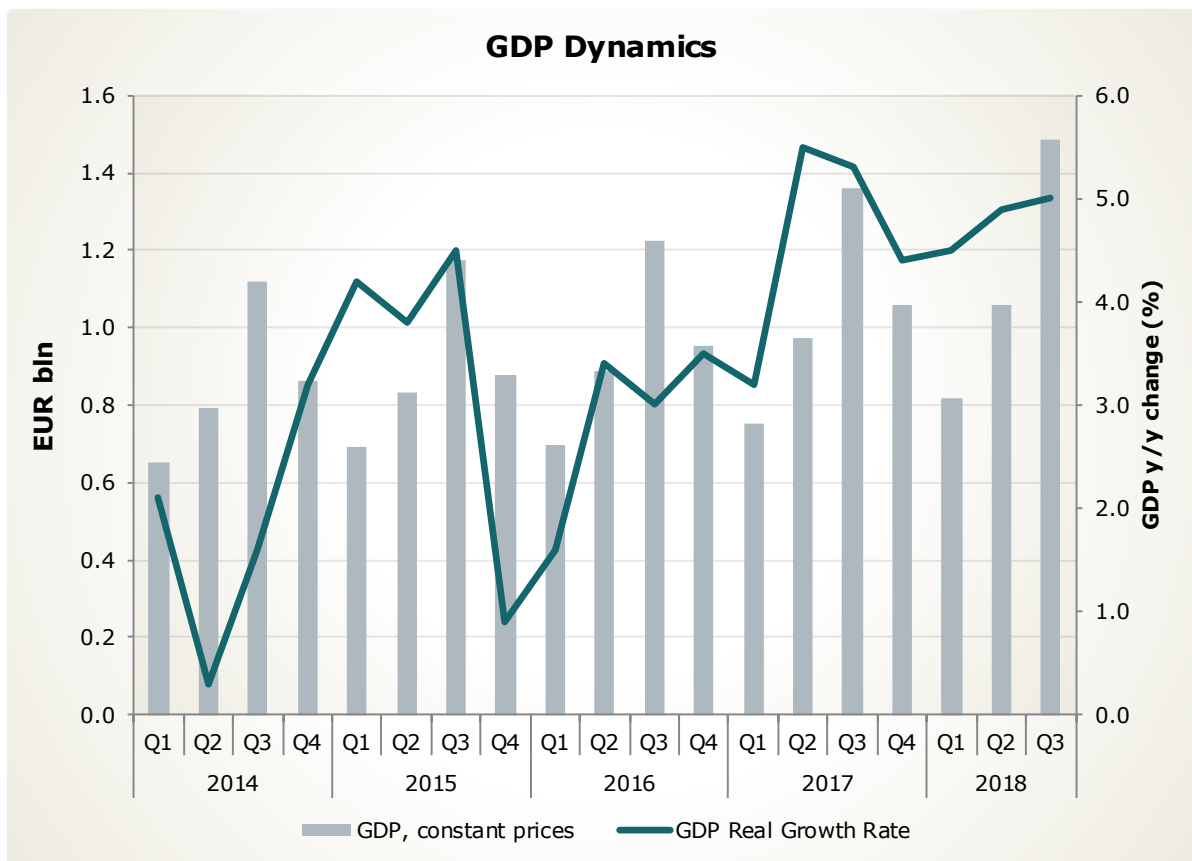
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth stayed strong at 5.0% y/y in Q3 2018

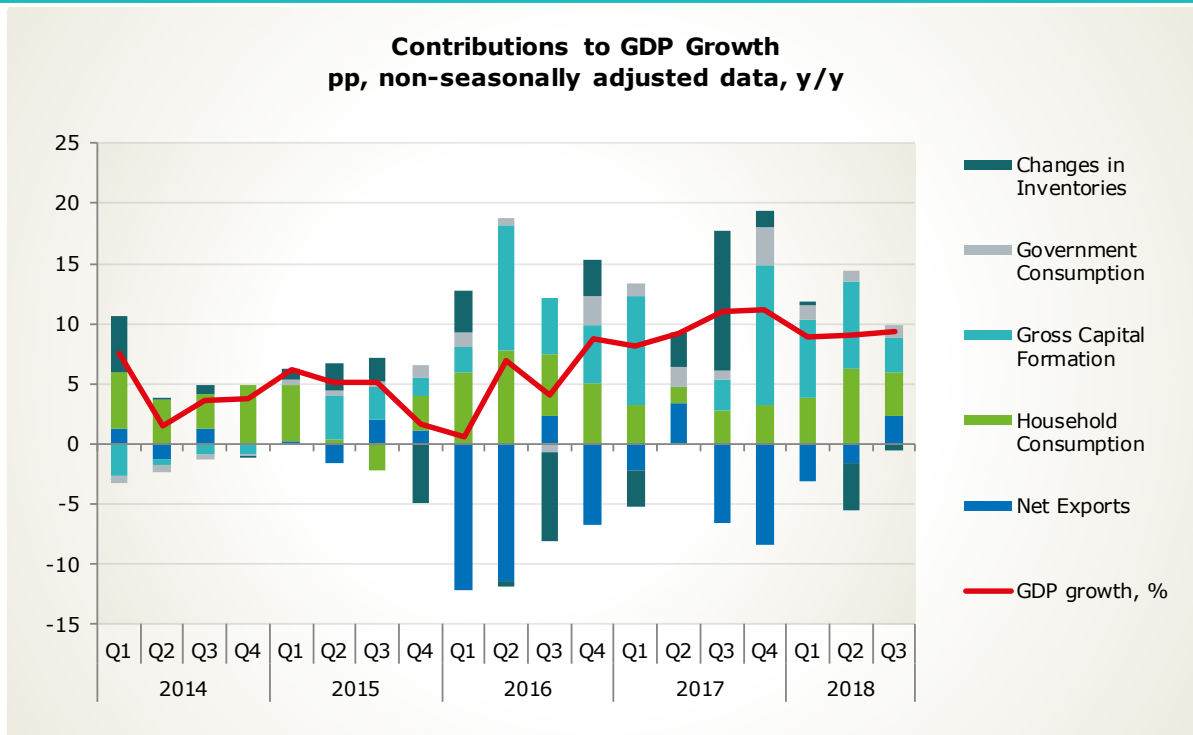
The economy of Montenegro continued to grow at strong rates during the third quarter of 2018. The country's real GDP annual growth was 5.0% in Q3 2018 and 4.9% y/y growth in Q2 2018, according to the Statistical Office of Montenegro (MONSTAT).

Montenegro's economy is growing strongly, boosted by the implementation of large investment projects, including the construction of the Bar-Boljare highway. The GDP totaled EUR 1.487 bln in constant prices in Q3 2018, compared to EUR 1.359 bln in the same quarter of the previous year.



Source: MONSTAT

Final consumption increased in value terms by 6.5% on the year to EUR 1.043 bln in Q3 2018. Gross capital formation went up by 14.5% y/y to EUR 318.4 mln. Exports grew by 11.9% on the year, and imports - by 9.9%.



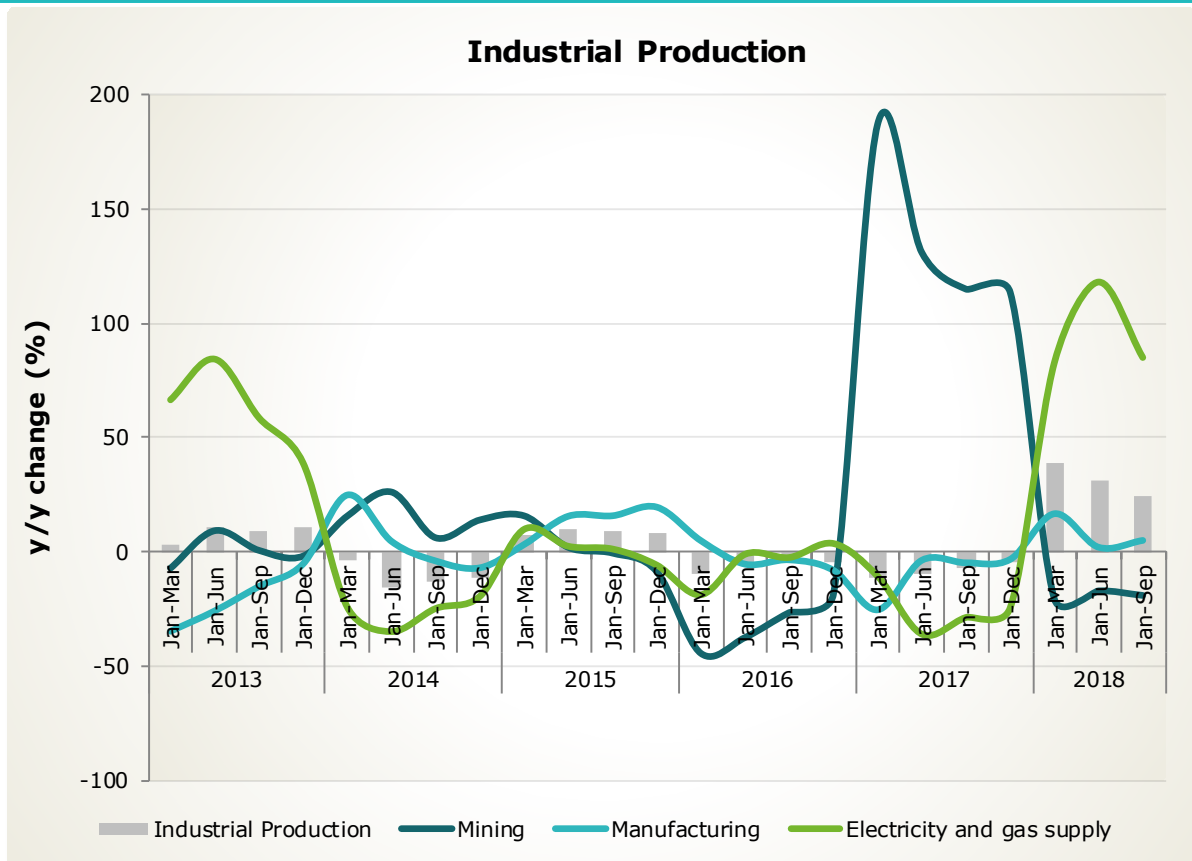
Source: MONSTAT

2.2. INDUSTRIAL OUTPUT

Industrial output surged by 24.4% y/y in January-September 2018

Industrial output jumped by 24.4% on the year in the first nine months of 2018, according to MONSTAT.

The surge was boosted by the output of the electricity and gas supply industry, which registered an annual rise of 84.8%, compared to a 28.8% y/y drop in January-September 2017. The production of the manufacturing industry went up by 5.3% y/y, while the output of the mining sector fell by 18.6% y/y.



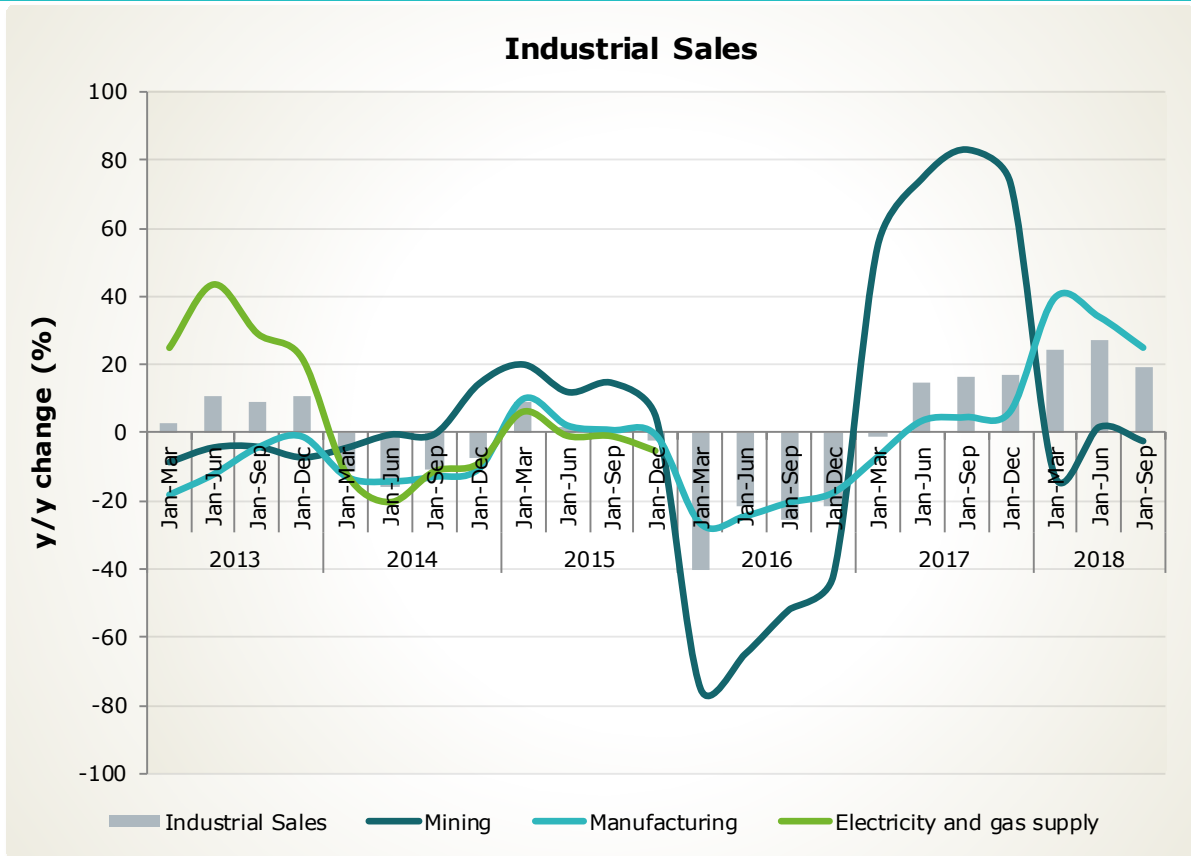
Source: MONSTAT

2.3. INDUSTRIAL SALES

Industrial sales increased by 19.2% y/y in Jan-Sept 2018

Industrial sales went up by 19.2% y/y in January-September 2018, according to MONSTAT.

The uptrend in the period under consideration was mainly due to the 25.0% y/y increase in the sales of the manufacturing industry. Sales of the mining sector fell by 2.5% y/y.



Source: MONSTAT

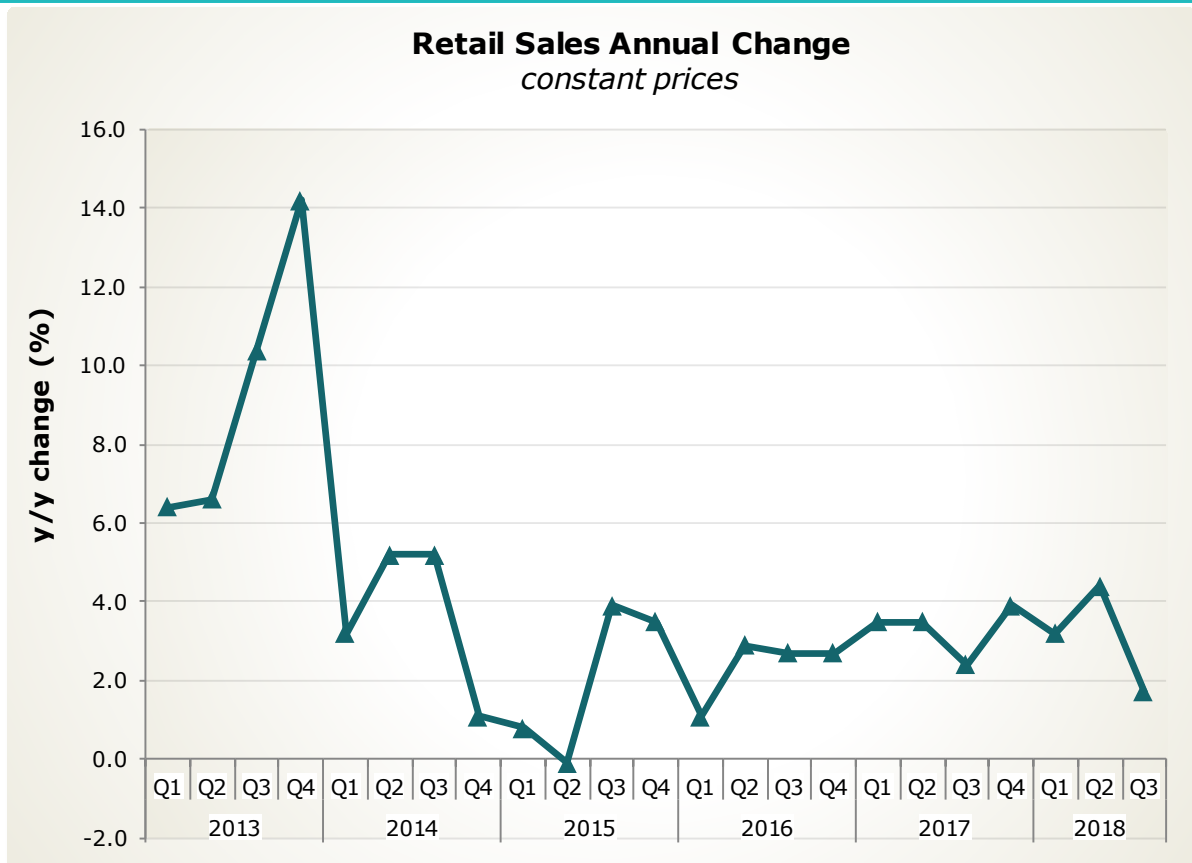
Editor's note: Data for electricity and gas supply sales was not available after 2015.

2.4. WHOLESALE/RETAIL

Retail sales grew 1.7% y/y in Q3 2018

Retail sales went up by 1.7% y/y in constant prices in Q3 2018, compared to 2.4% y/y rise in 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 7.5%. The retail trade without retail trade of motor fuels fell by 3.9%, while retail sale of automotive fuel in specialised stores experienced a 1.1% annual rise.



Source: MONSTAT

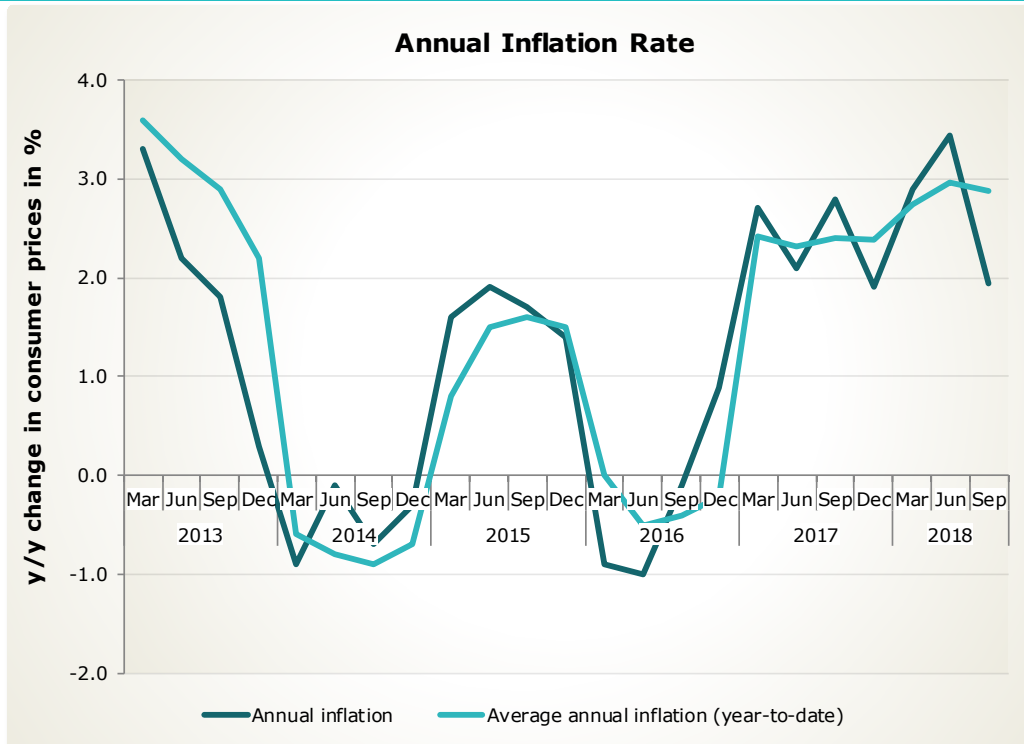
2.5. INFLATION

Average annual inflation at 2.9% y/y in January-September 2018

Montenegro registered an average annual inflation of 2.9% in the first nine months of 2018, according to MONSTAT data. In September 2018 alone, the inflation was 1.9%, down from 3.4% in June 2018.

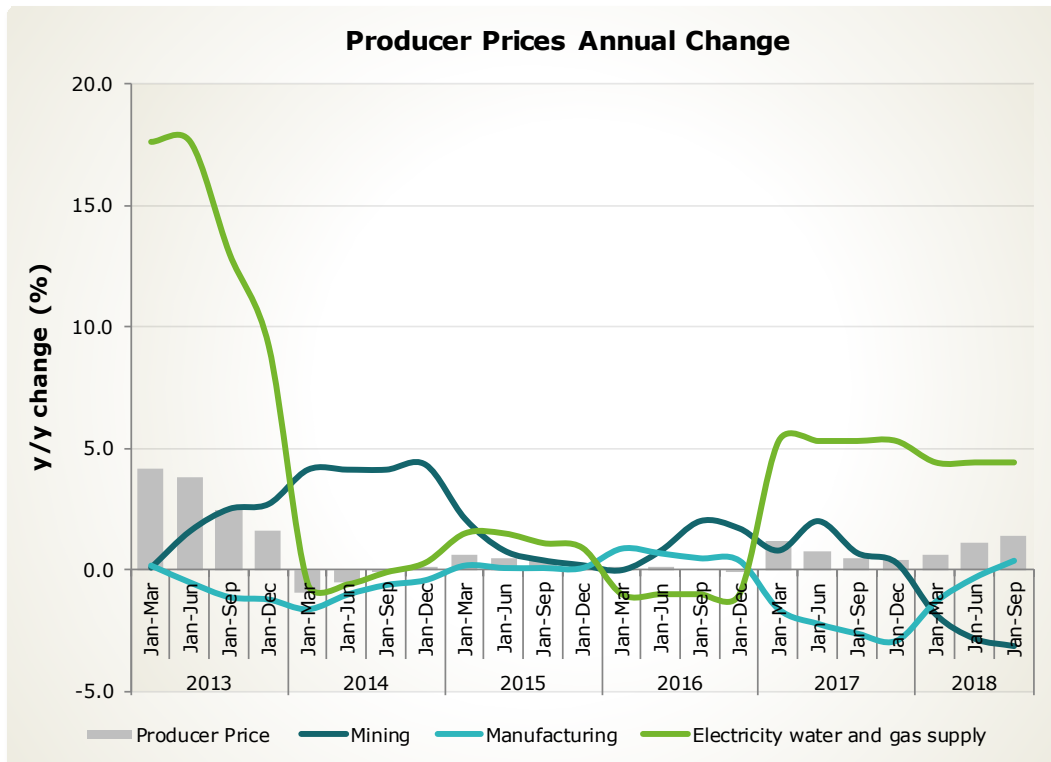
Segment wise, the highest annual increase in consumer prices, of 24.2%, was registered in alcoholic beverages and tobacco, while restaurants and hotels, and the transport sectors – rise 5.9% each.

A deflation was registered in only one sector – recreation and culture, where prices inched down by 0.4% on the year in the first nine months of 2018.



Source: MONSTAT

Producer prices inched up by 1.4% y/y in the January-September 2018 period. The electricity, gas and water supply sector registered an annual rise in producer prices of 4.4%, while producer prices in the manufacturing sector increased by 0.4%. The mining sector saw producer price decrease of 3.1%.



Source: MONSTAT

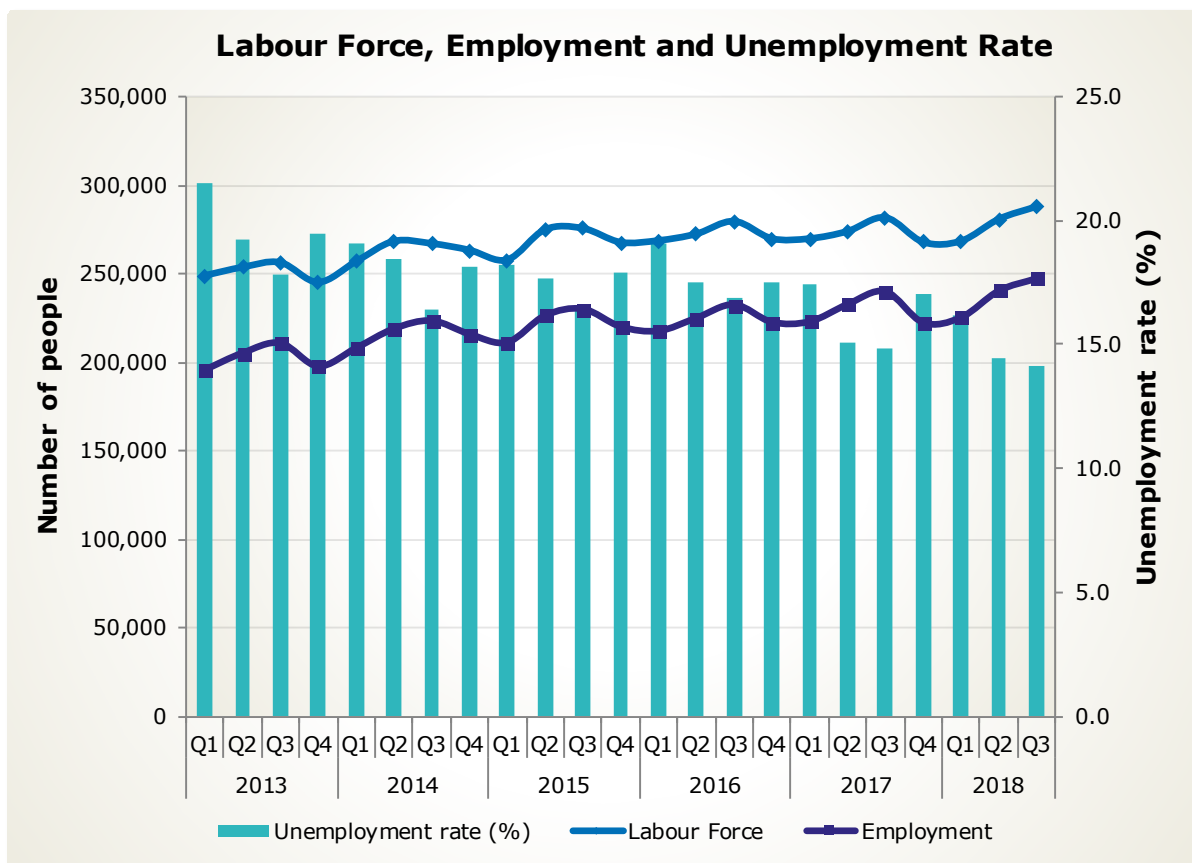
3. LABOUR MARKET

Unemployment rate at 14.1%, wages almost unchanged y/y in Q3 2018

Unemployment in Montenegro eased to 14.1% of the total labour force in Q3 2018, down from 14.4% in Q2 2018 and 14.8% in Q3 2017, according to data of MONSTAT.

The employed population aged 15 years and older was 247,200 people in Q3 2018, up by 3.1% y/y.

The youth (population aged 15-24) unemployment rate went down to 26.8% y/y from 27.5% in Q3 2017.



Source: MONSTAT

According to MONSTAT, the average monthly net salary in Q3 2018 remained almost unchanged, at EUR 511, compared to EUR 508 a year ago.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits down by 79.0% y/y in Q3 2018

The number of building permits issued in Montenegro in Q3 2018 dropped by 79.0% y/y and totaled 55, according to MONSTAT data.

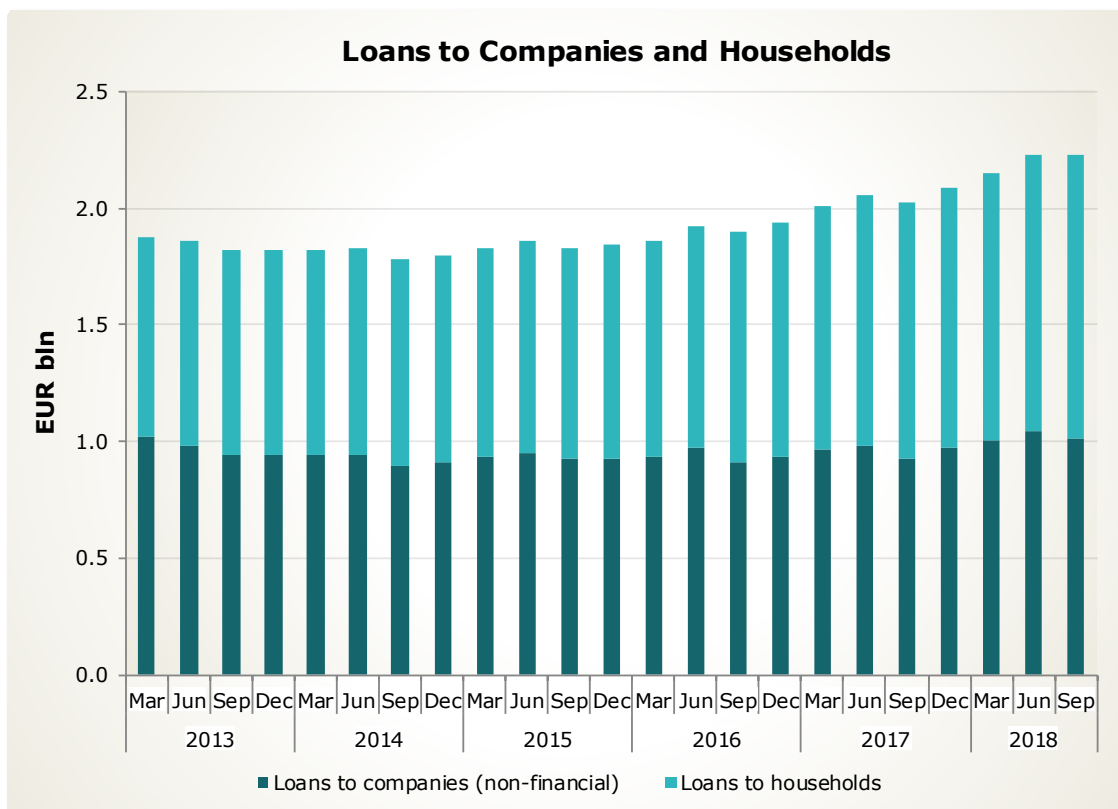
The number of dwellings, covered by the permits, jumped to 870 in the third quarter of 2018 from 733 in Q2 2018, and their total built-up area increased to 48,444 sq m from 41,611 sq m in the previous quarter.

5. BANKING AND INSURANCE

Household loans grew by 10.7% y/y at end-September 2018

Loans to the non-government and non-financial sector totalled EUR 2.230 bln as of September 2018, down from EUR 2.232 bln in June 2018, according to Central bank of Montenegro (CBCG).

Household loans rose by 10.7% to EUR 1.215 bln, accounting for 54.5% of the total loans to the non-government and non-financial sector, as well as corporate loans, which went up by 9.7% y/y to EUR 1.015 bln, slicing a 45.5% share.

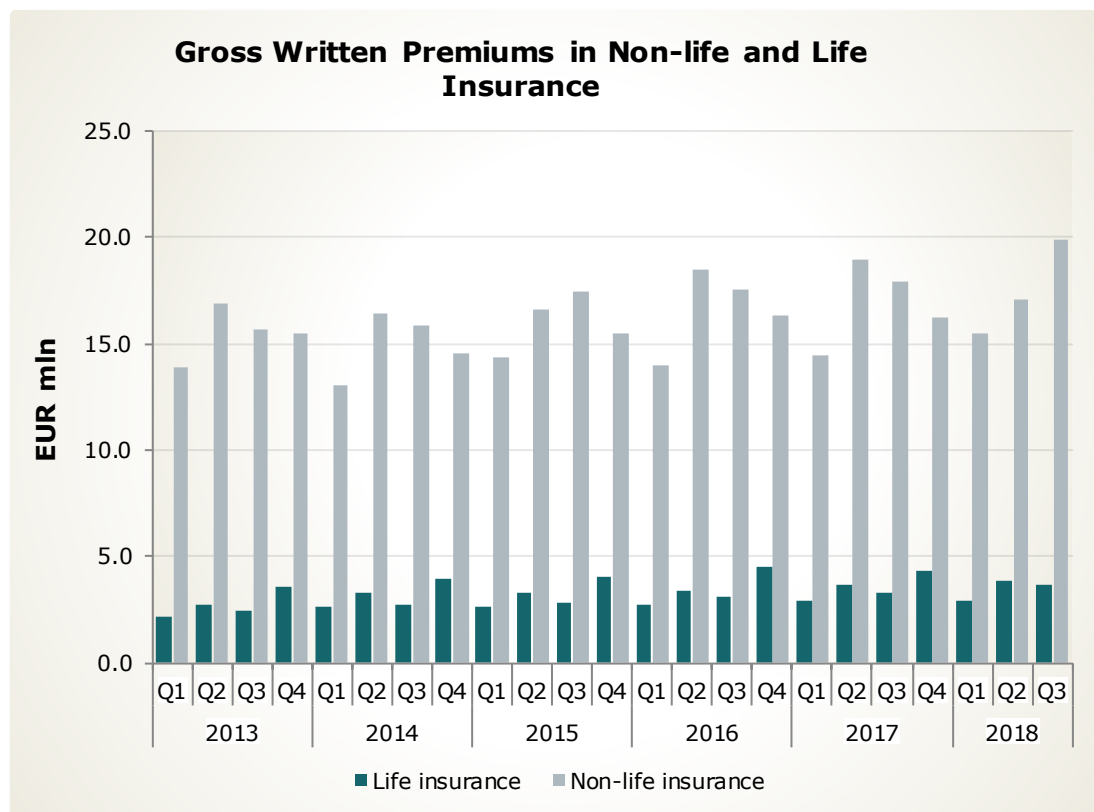


Source: CBCG

Insurance premiums up 11.2% y/y in Q3 2018

The total gross written premiums of the Montenegrin non-life and life insurance companies stood at EUR 23.587 mln, up by 11.2% y/y, in Q3 2018, according to the country's Insurance Supervision Agency (ANO).

The premiums of the non-life insurance market stood at EUR 19.901 mln, or by 10.8% more than a year earlier, while the life insurance sector grew by 13.5% y/y to EUR 3.686 mln.



Source: ANO

6. CAPITAL MARKETS

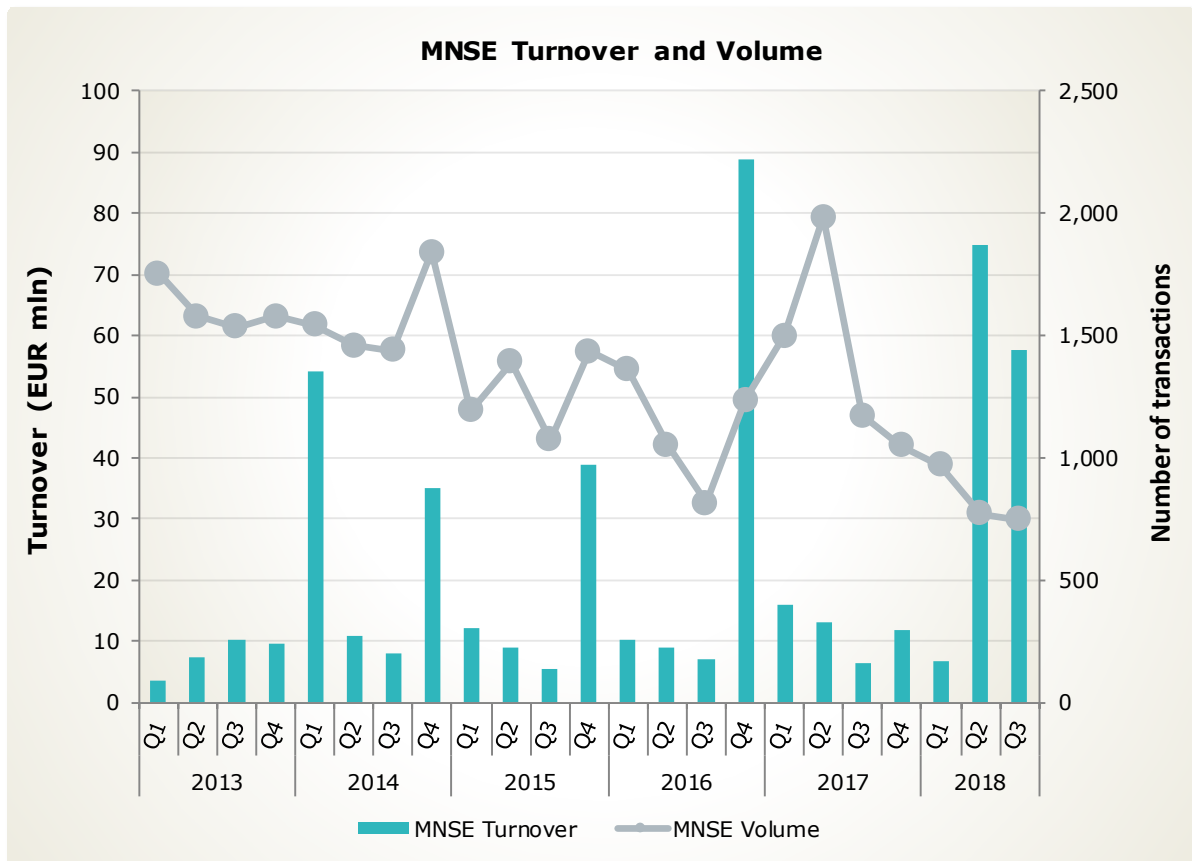
Blue-chip MNSE10* averaged 799 points in Q3 2018

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

In Q3 2018, the value of MNSE10, the blue-chip index of the Montenegro Stock Exchange (MNSE), averaged 799 points, down 2.0% q/q from 783 points in Q2 2018.

MNSE's market capitalization went down by 1.1% q/q to EUR 2.978 bln at end-September 2018 in comparison to EUR 3.012 in June 2018.

The total turnover on the bourse declined to EUR 57.671 mln in Q3 2018 from EUR 74.907 mln in the previous quarter.



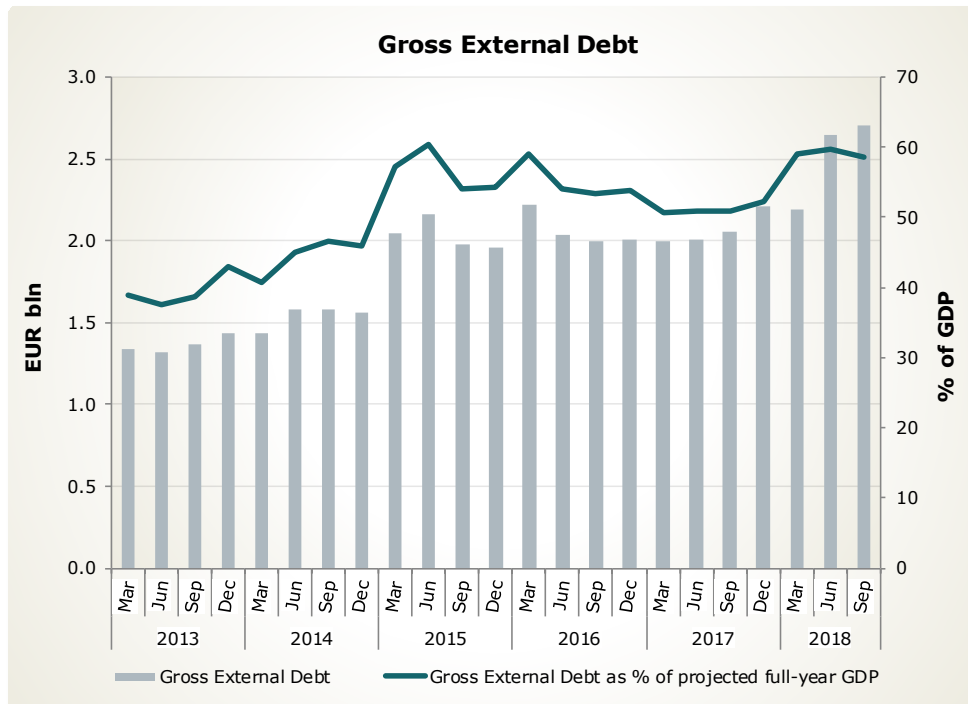
Source: MNSE

7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt increased to EUR 2.701 bln in September 2018

The gross external debt expanded to EUR 2.701 bln in September 2018, up by 31.2% y/y, according to CBCG. The gross external debt accounted for 58.6% of the GDP in Q3 2018, up from 50.8% in Q3 2017.



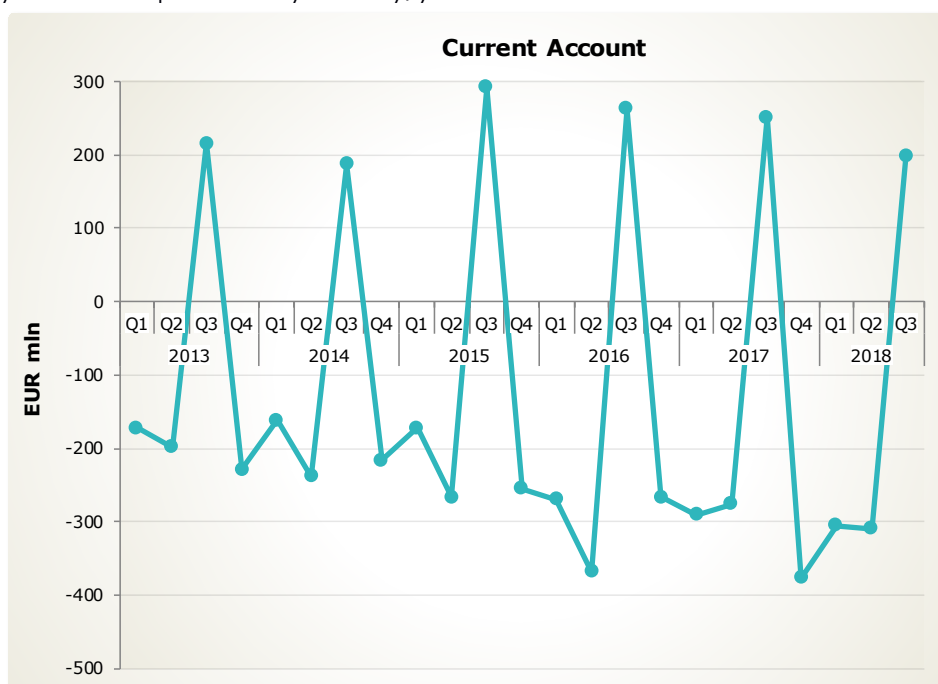
Source: CBCG

7.2. BALANCE OF PAYMENTS

Current account surplus at EUR 197.5 mln in Q3 2018

The current account surplus shifted to a surplus of EUR 197.5 mln in Q3 2018 from a deficit of EUR 309.3 mln in Q2 2018, according to central bank statistics data.

Secondary income expanded by 23.0% y/y to EUR 63.9 mln in Q3 2018.

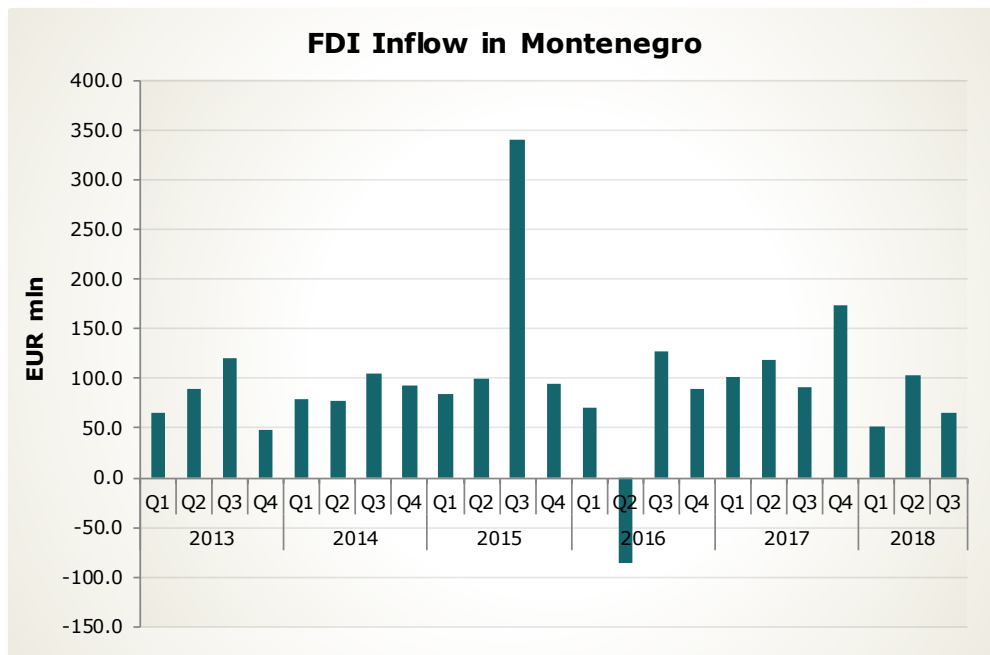


Source: CBCG

7.3. FDI

Net FDI inflow shrank by 28.9% y/y in the third quarter of 2018

During the third quarter of 2018, net FDI in Montenegro amounted EUR 64.8 mln, according to CBCG data. This is a decrease from the net FDI inflow of EUR 91.1 mln in Q3 2017. Moreover, compared to Q2 2018, FDI outflows almost doubled.



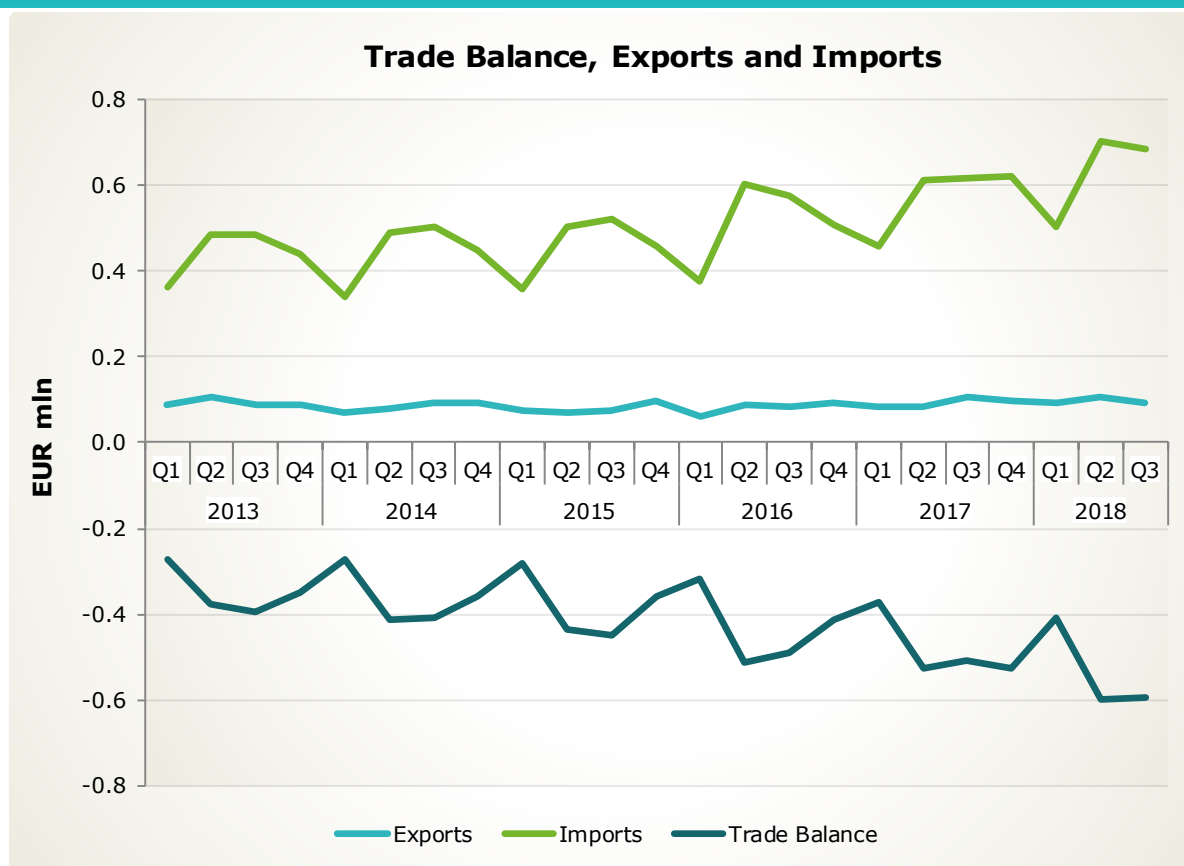
Source: CBCG

7.4. FOREIGN TRADE

Foreign trade deficit grew by 16.7% y/y in Q3 2018

The trade deficit stood at EUR 593.4 mln in the third quarter of 2018, up 16.7% y/y, according to CBCG.

Exports decreased by 14.2% y/y to EUR 91.8 mln, but remained much lower than imports, which rose by 11.4% y/y to EUR 685.1 mln. In Q2 2018, the coverage of imports by exports was 13.4%, slightly lower compared to a year ago – 14.9%.

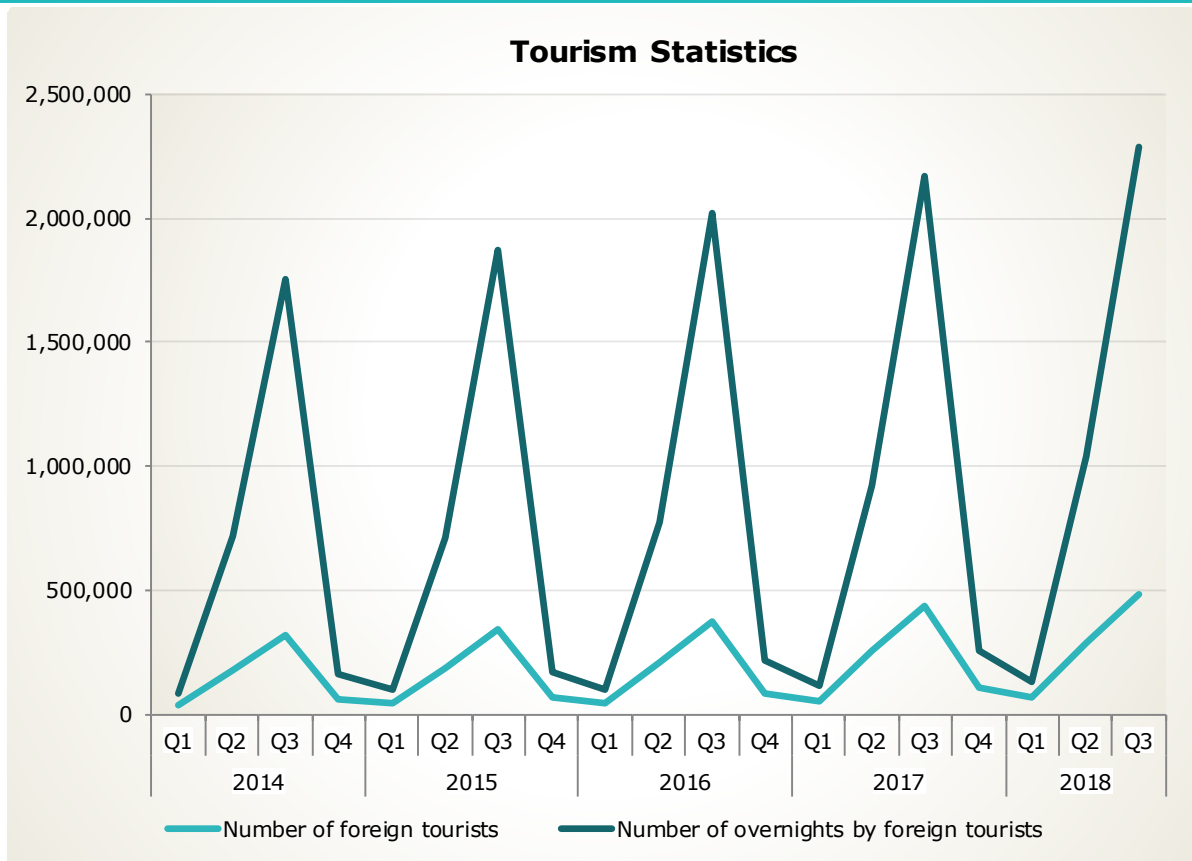


Source: MONSTAT

7.5. TOURISM

Number of foreign tourist overnights increased by 5.3% y/y in Q3 2018

Tourist overnights of foreigners rose by an annual 5.3% to 2.285 million in the third quarter of 2018, according to MONSTAT. The number of foreign tourists grew even faster, at a rate of 10.0% y/y and their number reached 480,447. The share of foreign visitors in total overnights in Montenegro remained extremely high, at 92.4%, in Q3 2018.



Source: MONSTAT

8. MAJOR DEVELOPMENTS

Montenegro seeking EUR 120 mln private investment in international airports

Sept 26, 2018

Montenegro hopes to find a company ready to invest at least EUR 120 mln in the country's two international airports, in Tivat and Podgorica, according to the prime minister Dusko Markovic.

[Read the full story here](#)

Montenegro's Luka Bar acquires forklift truck

Sept 25, 2018

Montenegrin port operator Luka Bar has invested EUR 173,635 in the acquisition of a forklift truck with a capacity of 16 tonnes, the company said.

[Read the full story here](#)

Montenegro ready to close two chapters in EU accession talks

Sept 24, 2018

Montenegro is ready to close two chapters in its membership negotiations with the European Union, according to the justice minister Zoran Pazin.

[Read the full story here](#)

Paysafe Group launches paysafecard in Montenegro

Sept 6, 2018

Isle of Man-based online payments company Paysafe Group launched its paysafecard prepaid payment method in Montenegro. The service is already available in Montenegro in denominations of EUR 5, 10, 25, 50 and 75 to purchase via the local Tobacco S Press d.o.o. shop network which comprises over 300 newspaper and tobacco kiosks, while more merchants are expected to sign up in due course, Paysafe Group said in a statement.

[Read the full story here](#)

EU inaugurates upgrade of Albania-Montenegro border crossing

Aug 3, 2018

The European Union delegation to Albania said it inaugurated the upgrade of Hani i Hotit crossing on the country's border with Montenegro.

[Read the full story here](#)

Terna to complete Montenegro-Italy power cable laying in H1'19

July 26, 2018

Italian electricity transmission system operator Terna expects to complete the laying of a power transmission cable linking Montenegro to Italy by the middle of next year, the CEO of the company, Luigi Ferraris, said.

[Read the full story here](#)

Montenegro's CEDIS invests EUR 2 mln in Ulcinj substation

July 23, 2018

Montenegro's power grid operator Crnogorski elektrodistributivni sistem (CEDIS) has invested EUR 2 mln in the construction of a 35/10 kV substation in Ulcinj, according to the company.

[Read the full story here](#)

World Bank lending EUR 6 mln to Montenegro for energy efficiency

July 2, 2018

Montenegro's finance ministry said it signed an agreement to receive EUR 6 mln loan from the World Bank for energy efficiency projects.

[Read the full story here](#)

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