

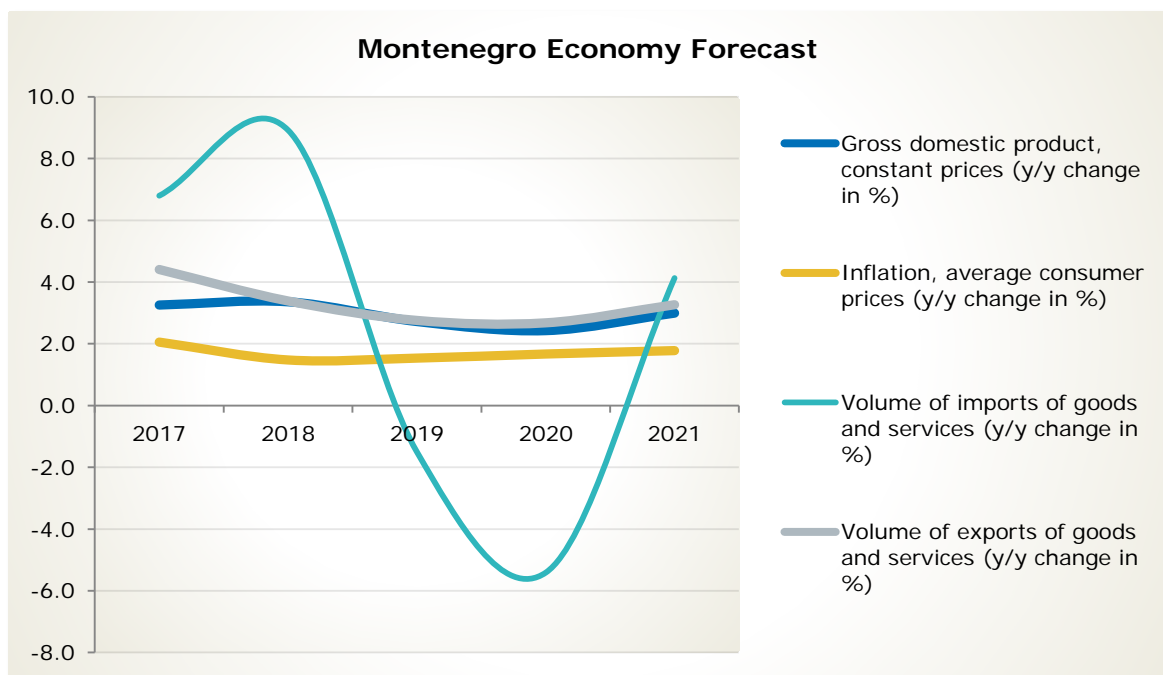
MONTENEGRO ECONOMY REPORT 2016

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1. MACROECONOMIC SNAPSHOT AND FORECAST

MONTENEGRO – MACROECONOMIC SNAPSHOT AS OF 2016	
GDP Growth	2.5% y/y
Industrial output	-4.4% y/y
Industrial sales	-21.4% y/y
Retail sales	2.4% y/y
Annual deflation	0.2%
Unemployment rate	17.7%
Number of building permits	27.2% y/y
Household loans	10.5% y/y
MNSE10 blue-chip index	936 points (base = 1,000 points)
Gross External Debt	EUR 1.995 bln (Q3 2016)
Current account deficit	EUR 711.9 mln
FDI inflow	EUR 687.2 mln
Foreign trade deficit	EUR 1.733 mln
Number of foreign tourist overnights	2.1% y/y



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

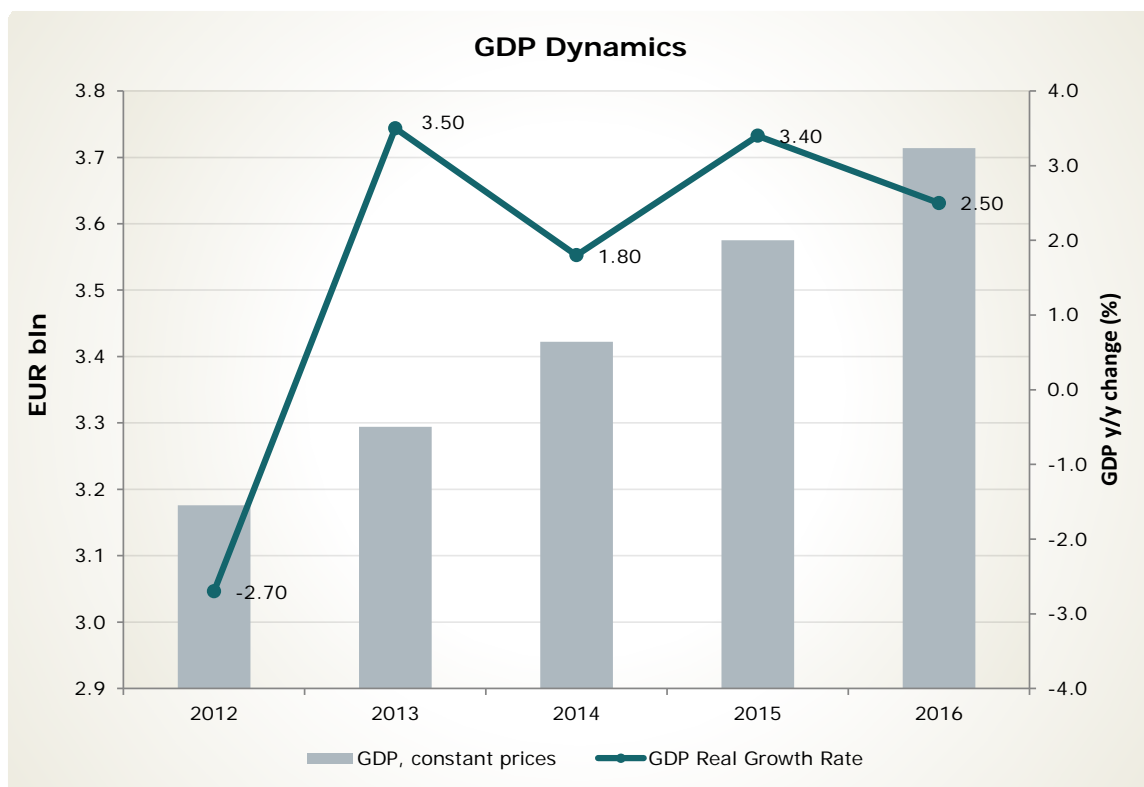
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went down by real 2.5% y/y in 2016, compared to a 3.4% y/y growth a year ago

The country's real GDP annual growth was 2.5% in 2016, according to the Statistical Office of Montenegro (MONSTAT). The GDP totalled EUR 3.714 bln in constant prices in 2016, compared to EUR 3.575 bln in the previous year.

Final consumption increased in value terms by 3.9% on the year to EUR 3.656 mln in 2016. Gross capital formation went up by 29.7% to EUR 954.0 mln. Imports and exports grew by 16.6% and 10.2%.



Source: MONSTAT

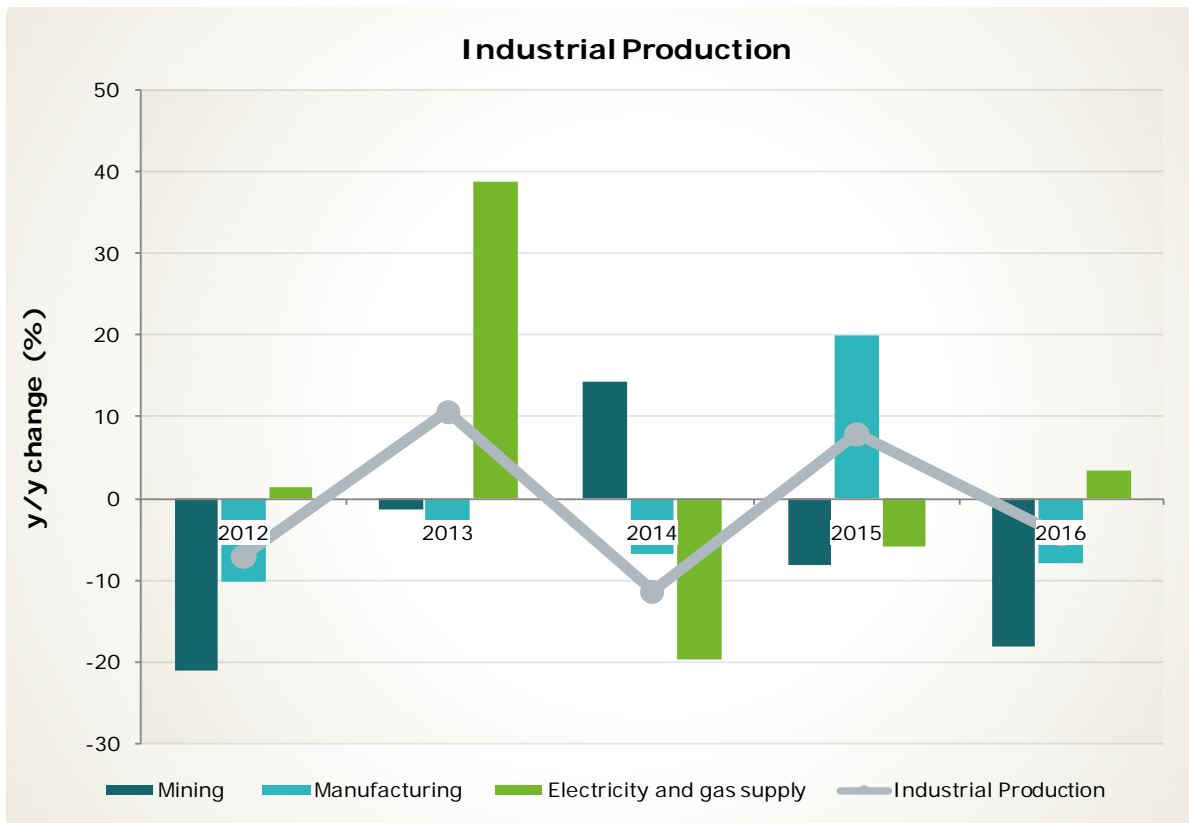
2.2. INDUSTRIAL OUTPUT

Industrial output down 4.4% y/y in 2016

Industrial output went down by 4.4% on the year in 2016, according to MONSTAT.

The overall drop was caused by the 18.1% slump of the production of the mining industry and the 7.8% fall of the manufacturing output. The electricity and gas supply industry performed better than the others, and registered a 3.5% annual increase.

Manufacture of tobacco products experienced the sharpest annual drop in production – 52.8%, while manufacturing of leather and related products doubled its output and was the segment with the highest annual growth.



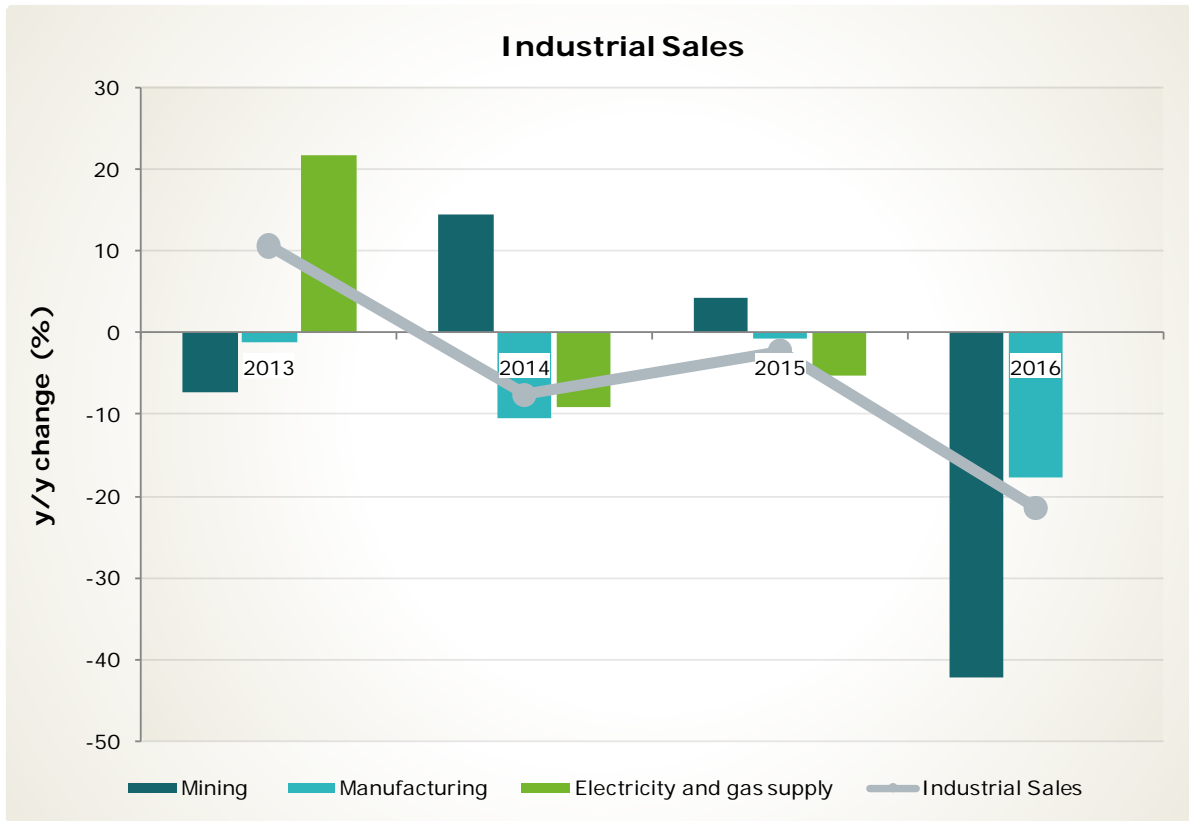
Source: MONSTAT

2.3. INDUSTRIAL SALES

Industrial sales shrank by 21.4% y/y in 2016

Industrial sales slumped by an annual 21.4% in 2016, according to MONSTAT.

The downtrend in 2016 was due to the 42.1% annual drop in the sales of the mining and quarrying sector, and the 17.6% decrease in the sales of the manufacturing sector.



Source: MONSTAT

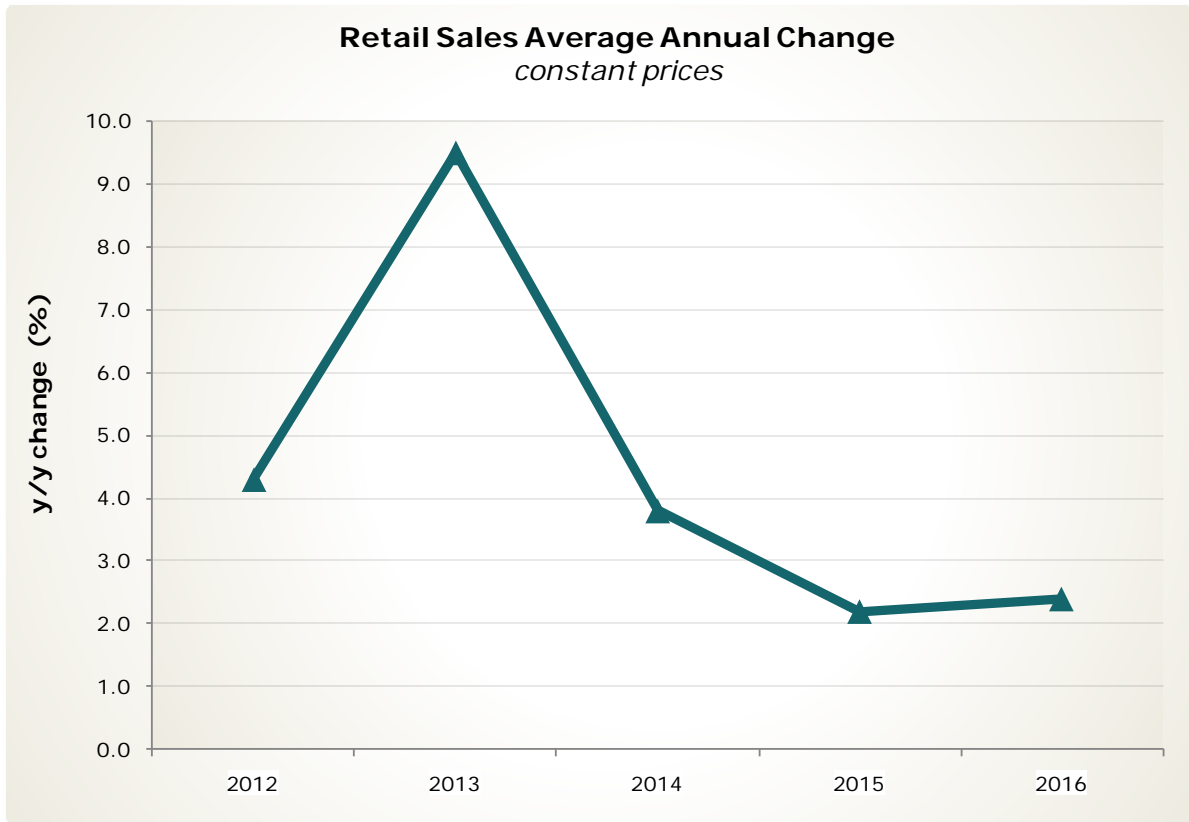
Editor's note: Data for electricity and gas supply sales was not available for January - December 2016.

2.4. WHOLESALE/RETAIL

Retail grew y/y in 2016

Retail sales went up by 2.4% in constant prices in 2016, compared to the previous year, according to MONSTAT data.

In Q4 2016 retail trade of food, drinks and tobacco led the ranking in terms of sharpest average annual growth with 10.9%.



Source: MONSTAT

Wholesales went up by 6.5% y/y in 2015*¹

*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.

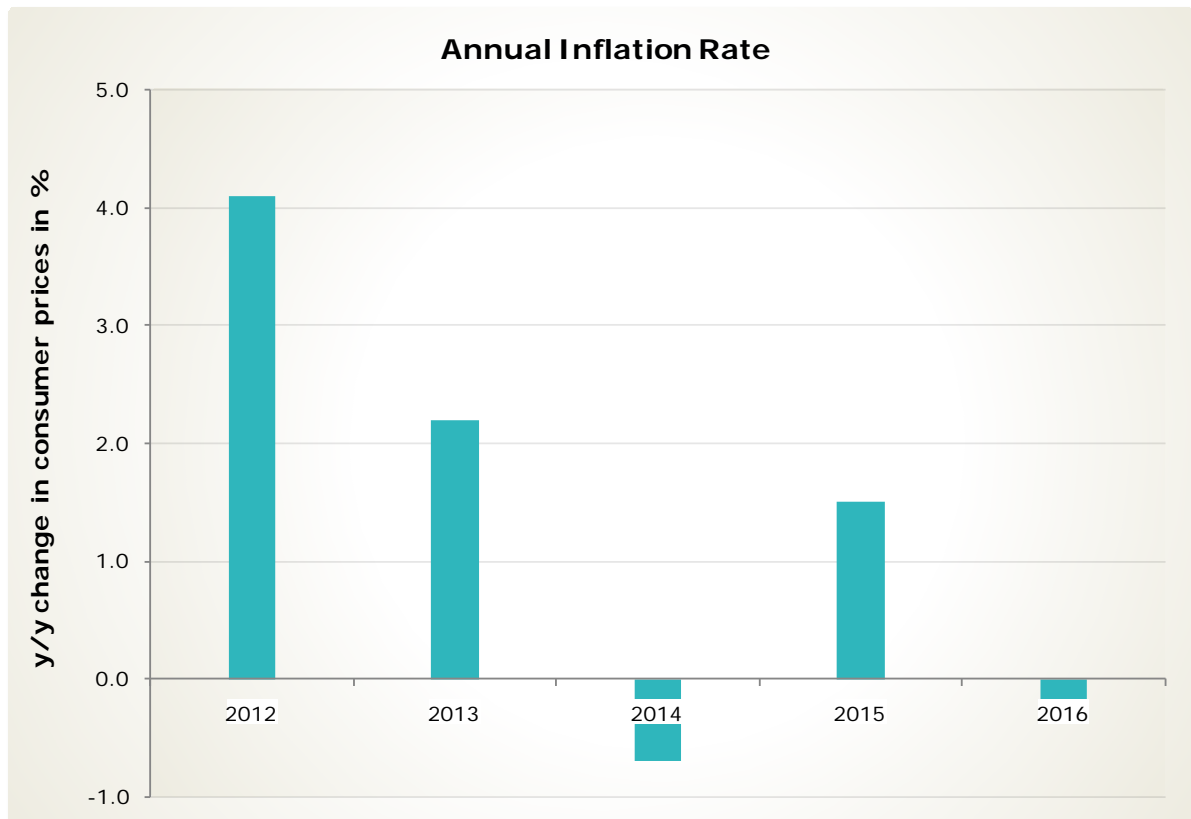
2.5. INFLATION

Average deflation of 0.2% y/y in 2016

¹ Annual data for 2016 was not available at the time of preparation of this report

Montenegro registered an average annual deflation of 0.2% in 2016, according to MONSTAT data.

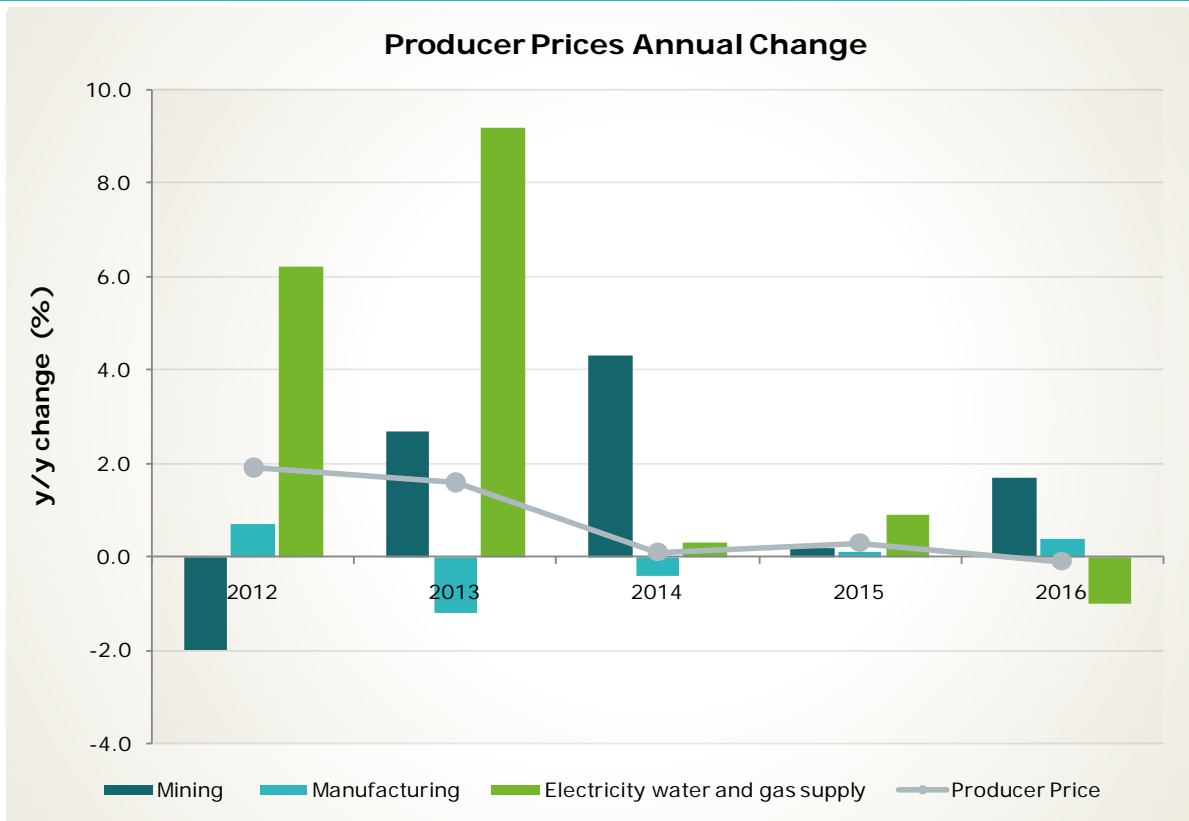
Segment wise, the highest annual increase in consumer prices, of 3.0%, was registered in clothing and footwear, while transport service prices dropped the most – by 4.7%.



Source: MONSTAT

Producer prices inched down by 0.1% in 2016, compared to the previous year. The mining and quarrying sector registered an annual increase in producer prices of 1.7%, while producer prices in the electricity, gas and water supply sector decreased by 1.0%.

Looking by segments, producer prices grew the most, by 10.2%, in the manufacturing of leather and leather products, while the sharpest decline, of 1.0%, was registered by electricity, gas and water supply.



Source: MONSTAT

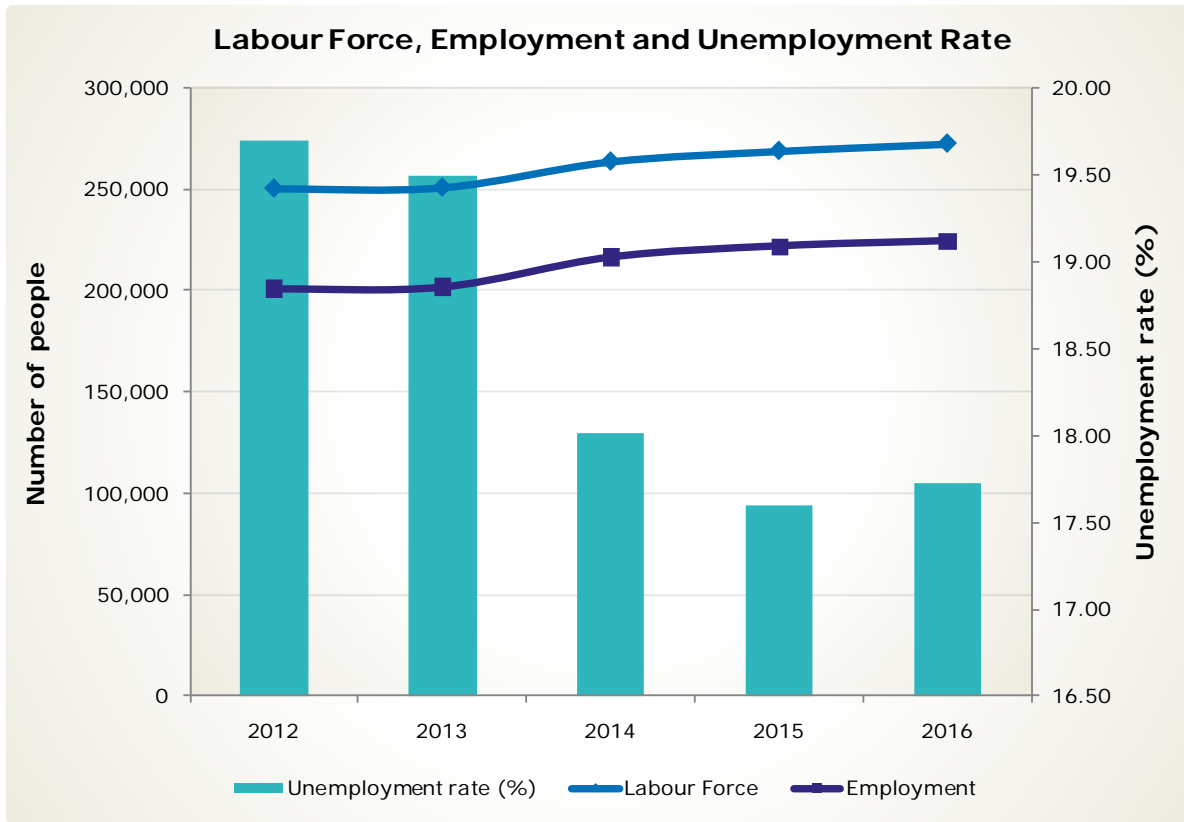
3. LABOUR MARKET

Unemployment rate at 17.7%, wages up 4.0% y/y in 2016

Unemployment in Montenegro grew to 17.7% of the total labour force in 2016 from 17.6% in 2015, according to data of MONSTAT.

The employed population aged 15 years and older was 224,200 people in 2016, up by 1.1% compared to the 221,700 a year earlier.

The youth (population aged 15-24) unemployment rate went down to 35.9% from 37.7%.



Source: MONSTAT

The average monthly net salary in 2016 increased by 4.0% y/y to EUR 499, according to MONSTAT.

Employees in the financial and insurance activities had the highest average monthly net salaries, of EUR 911, followed by the electricity, gas, steam and air conditioning supply with EUR 874, and real estate activities with EUR 726.

The lowest wage, of EUR 314, was paid in the administrative and support service activities. Wholesale and retail trade, repair of motor vehicles and motor recycles sector followed with EUR 345 and employees in the accommodation and food service activities earned the third lowest wages in the country, of EUR 388.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits grew by 27.2% y/y in 2016

The number of building permits issued in Montenegro in 2016 increased by 27.2% y/y and totalled 983, according to MONSTAT data.

In line with the overall growth, the number of dwellings, covered by the permits, also increased by 0.4% to 3,005 and their total built-up area expanded to 215,229 sq m from 204,038 sq m.

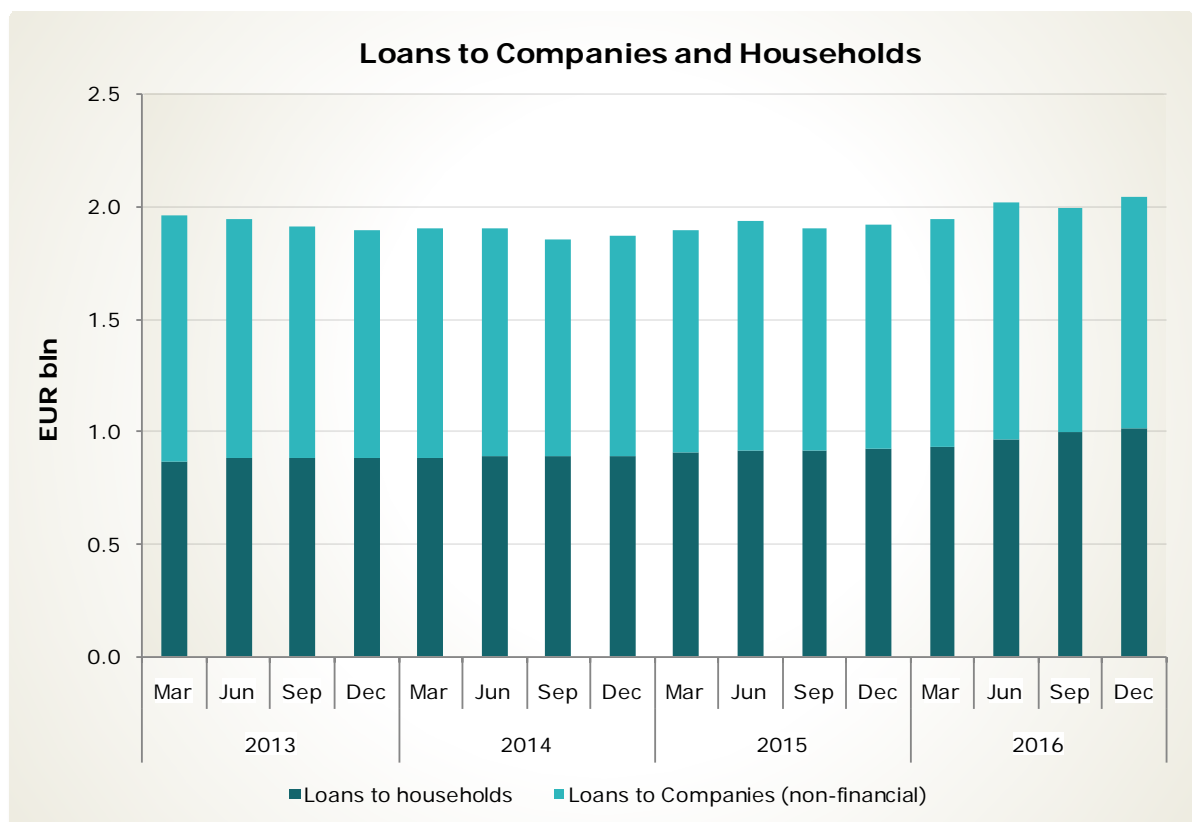
The average dwelling price went down to EUR 1,011 per sq m in 2016 from EUR 1,090 per sq m a year earlier. Among the major cities, the average price was the highest – EUR 1,500 per sq m in coastal Bar, while the lowest average price, of EUR 599 per sq m, was registered in Niksic, western Montenegro.

5. BANKING AND INSURANCE

Household loans inched up by 10.5% y/y at end-December 2016

Loans to the non-government and non-financial sector totalled EUR 2.040 bln as of December 2016, up by 6.0% y/y, according to Central bank of Montenegro (CBCG).

Household loans grew by 10.5% to EUR 1.018 bln, accounting for 49.9% of the total loans to the non-government and non-financial sector, while corporate loans went up by 1.9% to EUR 1.020 bln, slicing a 50.1% share.



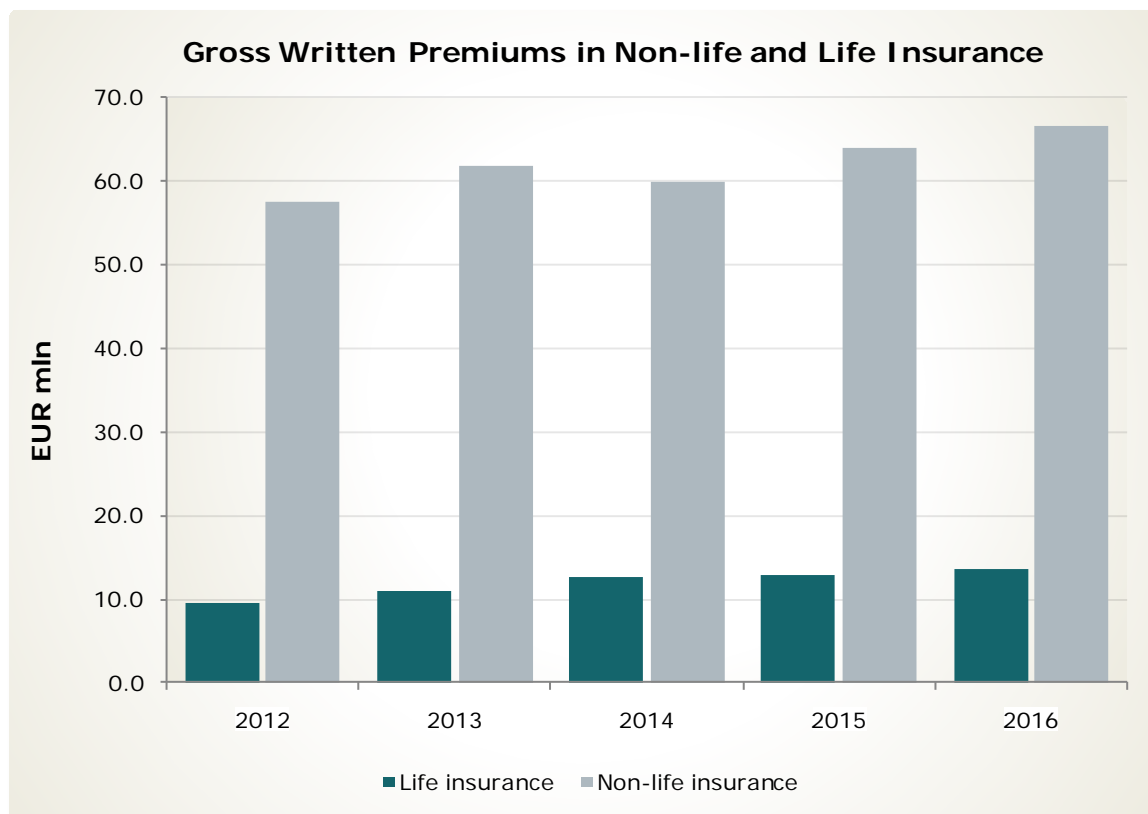
Source: CBCG

The total assets of the banking system reached EUR 3.790 bln at the end of December 2016 versus EUR 3.472 bln a year earlier. Among the liabilities, the sum of deposits also grew – to EUR 2.872 bln from EUR 2.625 bln in December 2015.

Insurance premiums went up 4.2% y/y in 2016

The total gross written premiums of the Montenegrin non-life and life insurance companies stood at EUR 80.140 mln, up by 4.2% y/y, in 2016, according to the country's Insurance Supervision Agency (ANO).

The premiums of the non-life insurance market stood at EUR 66.463 mln, or by 3.8% more than a year earlier, while the life insurance sector grew by 5.8% to EUR 13.677 mln.



Source: ANO

6. CAPITAL MARKETS

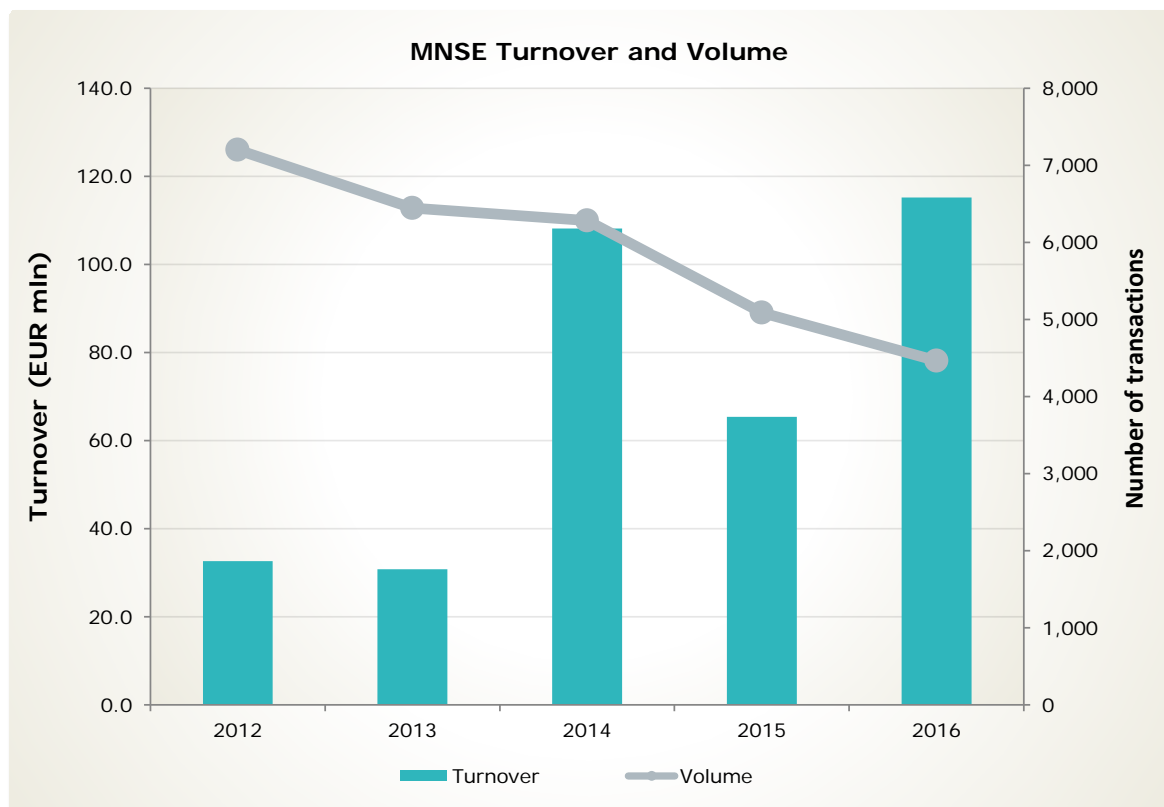
Blue-chip MNSE10* averaged 936 points in 2016

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

In 2016, the value of MNSE10, the blue-chip index of the Montenegro Stock Exchange (MNSE), averaged 936 points, compared to a base value of 1,000 points.

MNSE's market capitalization went down by 3.5% y/y to EUR 2.878 bln at end-December 2016.

The total turnover on the bourse jumped to EUR 115.2 mln in 2016 from EUR 65.405 mln a year earlier.



Source: MNSE

7. EXTERNAL SECTOR

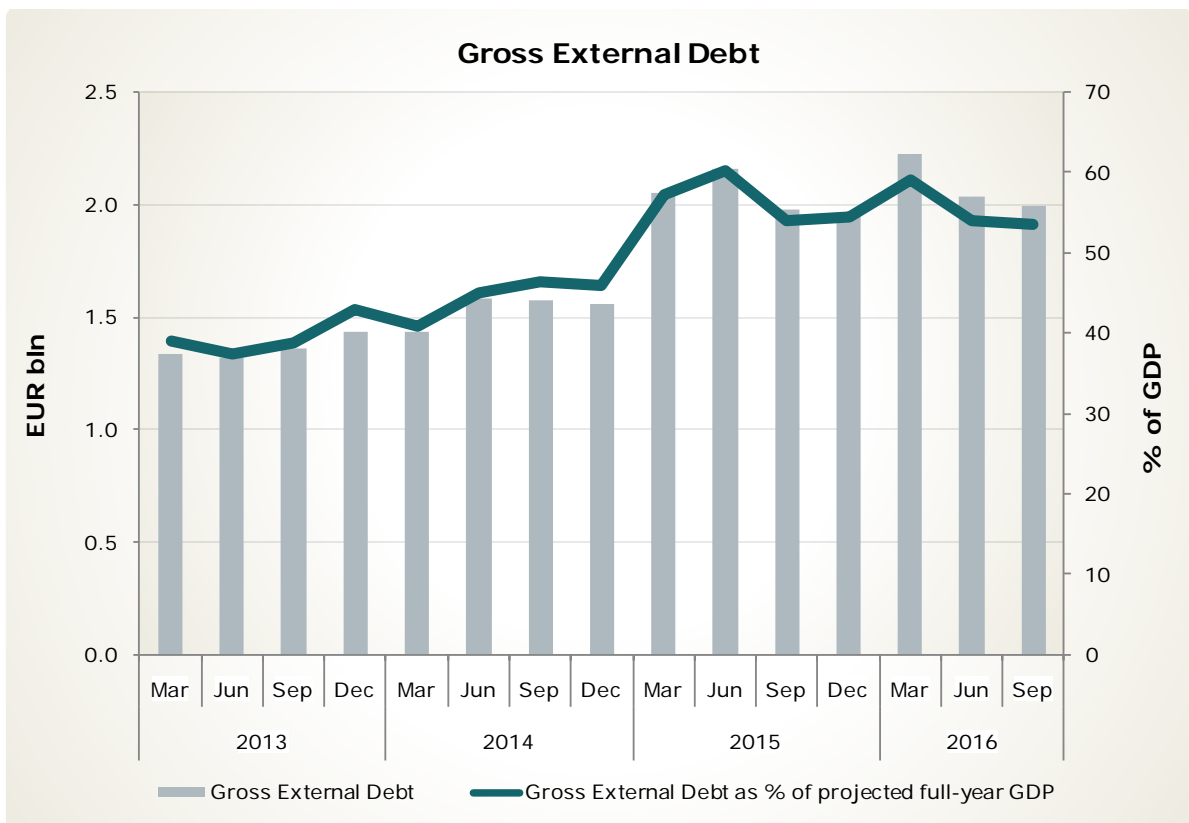
7.1. FOREIGN DEBT

The gross external debt grew annually to EUR 1.995 bln at end-September 2016²

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

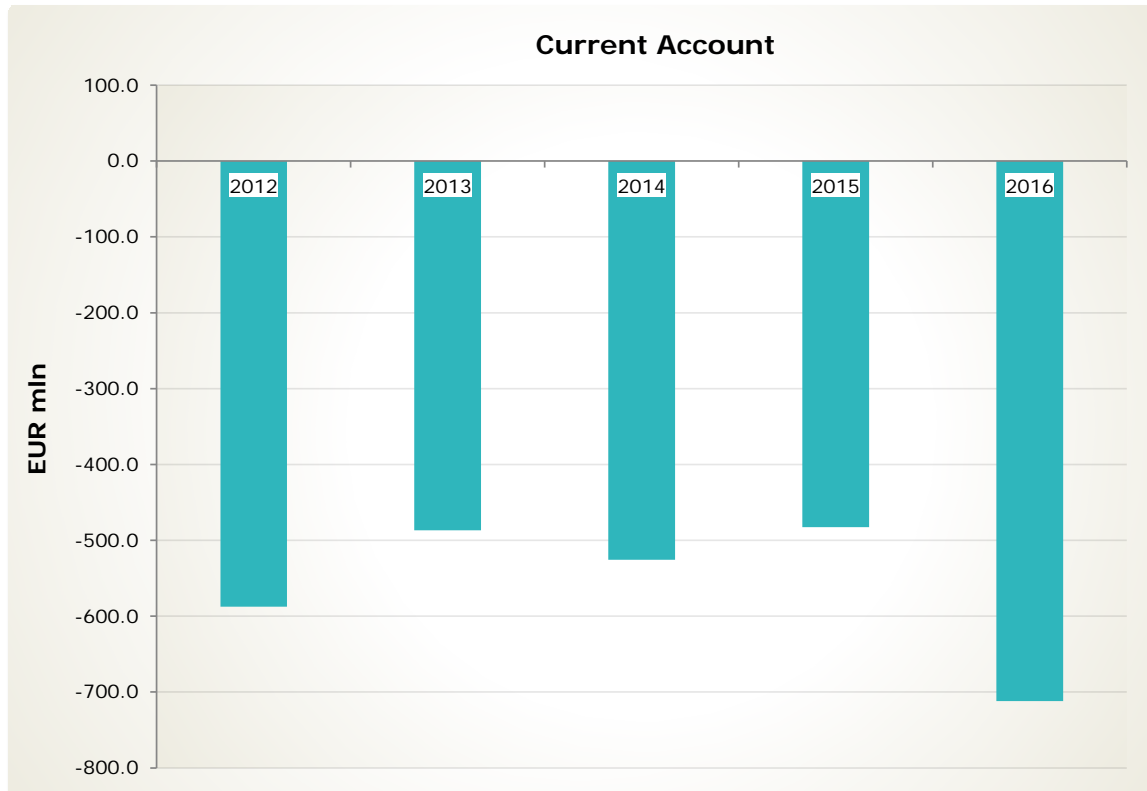
7.2. BALANCE OF PAYMENTS

Current account deficit at EUR 711.9 mln in 2016

² Annual data for 2016 was not available at the time of preparation of this report

The current account deficit widened to EUR 711.9 mln in 2016 from EUR 482.8 mln in 2015, according to central bank statistics data.

Secondary income went up to EUR 120.4 mln compared to EUR 98.762 mln in the 2015.



Source: CBCG

7.3. FDI

FDI inflow down 9.3% y/y in 2016

FDI went down by 9.3% annually, to EUR 687.2 mln in 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, Russia came second with EUR 52.808 mln and Italy came third with EUR 50.600 mln.

Inflow in the form of investments in companies and banks and real estate amounted to EUR 175.4 mln and EUR 133.1 mln, respectively. Intercompany debt FDI inflow stood at EUR 186.9 mln and other FDI made up the remaining EUR 191.9 mln.

7.4. FOREIGN TRADE

Foreign trade deficit grew by 13.8% y/y in 2016

The trade deficit stood at EUR 1.733 mln in 2016, compared to EUR 1.523 mln in 2015, according to CBCG.

Montenegro's most exported goods in 2016 were non-ferrous metals – EUR 62.955 mln, followed by metalliferous ores and metal scrap – EUR 37.276 mln, and electric current – EUR 36.931 mln.

In terms of imports, the leaders were road vehicles – EUR 134.5 mln, petroleum, petroleum products and related materials – EUR 133.9 mln, and electrical machinery, apparatus and appliances – EUR 129.8 mln.

The country's main export markets in 2016 were Serbia, accounting for 25.2% of the total exports, followed by Hungary with a 10.7% share and Bosnia and Herzegovina exports made up 8.2% of the total.

Serbia and Germany were Montenegro's main trading partners in terms of imports with shares in the total imports of 22.2% and 10.5%, respectively. Imports from Italy had the third largest share, of 7.4%.



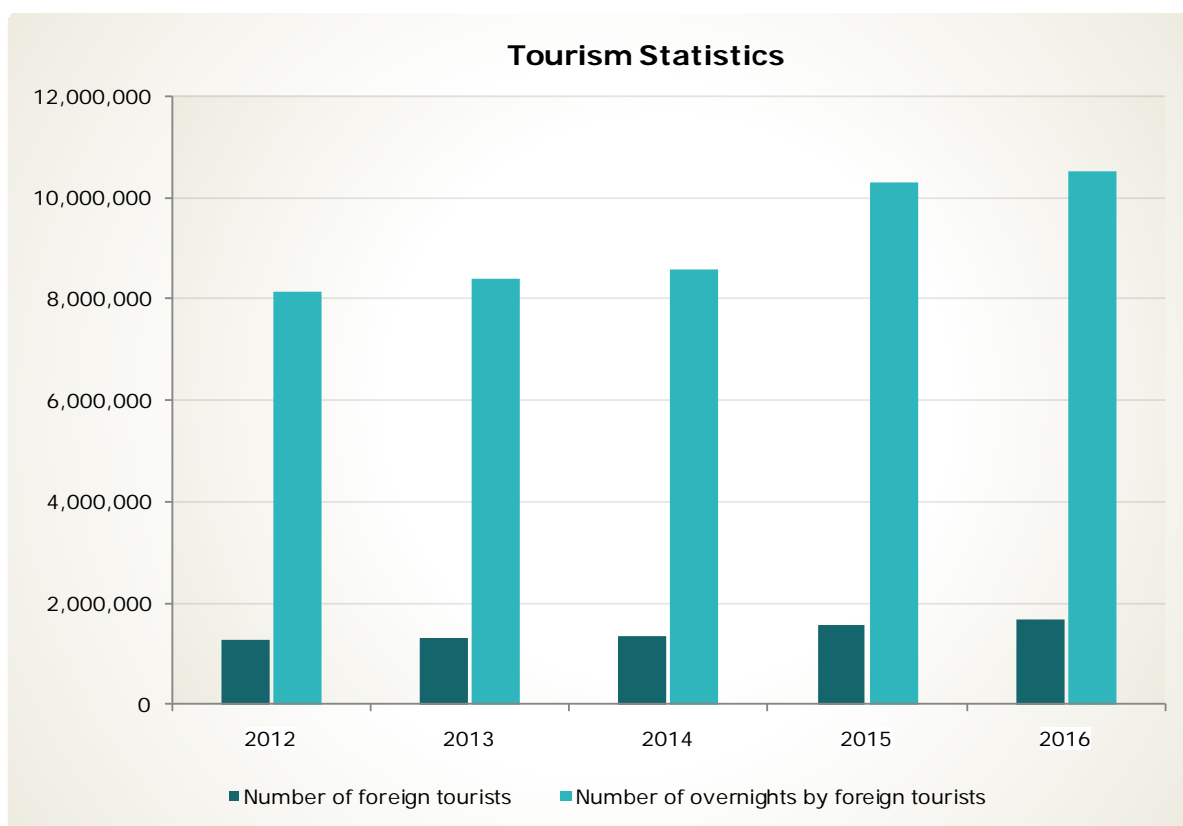
Source: MONSTAT

7.5. TOURSIM

Number of foreign tourist overnights grew by 2.1% y/y in 2016

Tourist overnights of foreigners increased by an annual 2.1% to 10,528,475 in 2016, according to MONSTAT.

The number of foreign tourists also went up - by 6.6% y/y to 1,662,121. Serbians tourists led the ranking, accounting for 22.5% of the total number of tourists visiting Montenegro, followed by Russian with a 19.1% share, and tourists from Bosnia and Herzegovina with a 10.7% share.



Source: MONSTAT

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