

## **MONTENEGRO ECONOMY REPORT** 2017

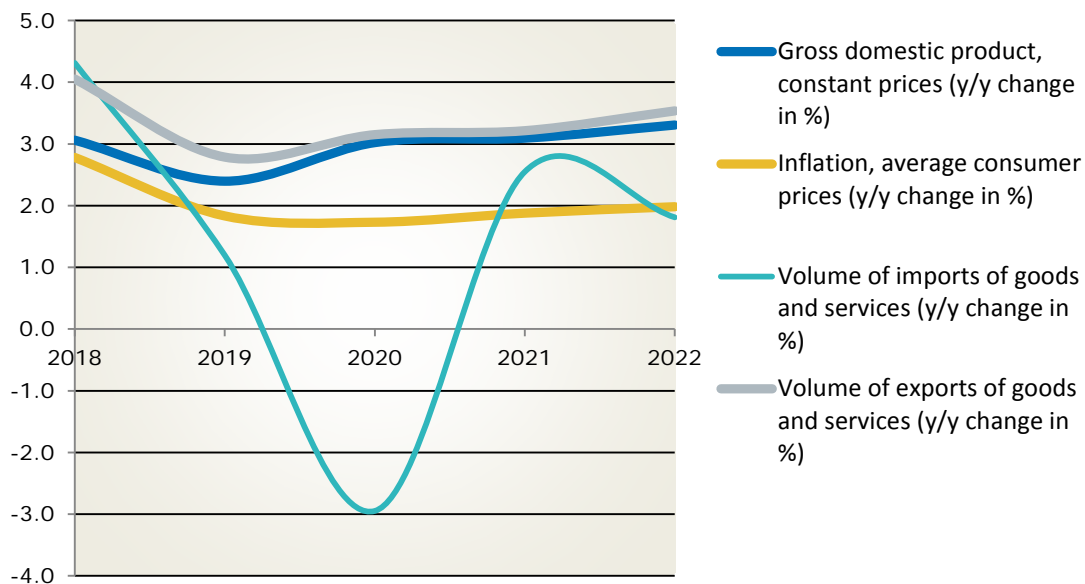
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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

MONTENEGRO – MACROECONOMIC SNAPSHOT AS OF 2017	
<b>GDP Growth</b>	4.0% y/y (Q4 2017)
<b>Industrial output</b>	-4.2% y/y
<b>Industrial sales</b>	16.8% y/y
<b>Retail sales</b>	3.3% y/y
<b>Annual inflation</b>	2.4%
<b>Unemployment rate</b>	16.1%
<b>Number of building permits</b>	6.8% y/y
<b>Household loans</b>	10.3% y/y
<b>MNSE10 blue-chip index</b>	-7.6% y/y
<b>Gross External Debt</b>	EUR 2.059 bln
<b>Current account deficit</b>	EUR 799.5 mln
<b>FDI inflow</b>	EUR 649.2 mln
<b>Foreign trade deficit</b>	EUR 1.932 mln
<b>Number of foreign tourist overnights</b>	6.3% y/y

### Montenegro Economy Forecast



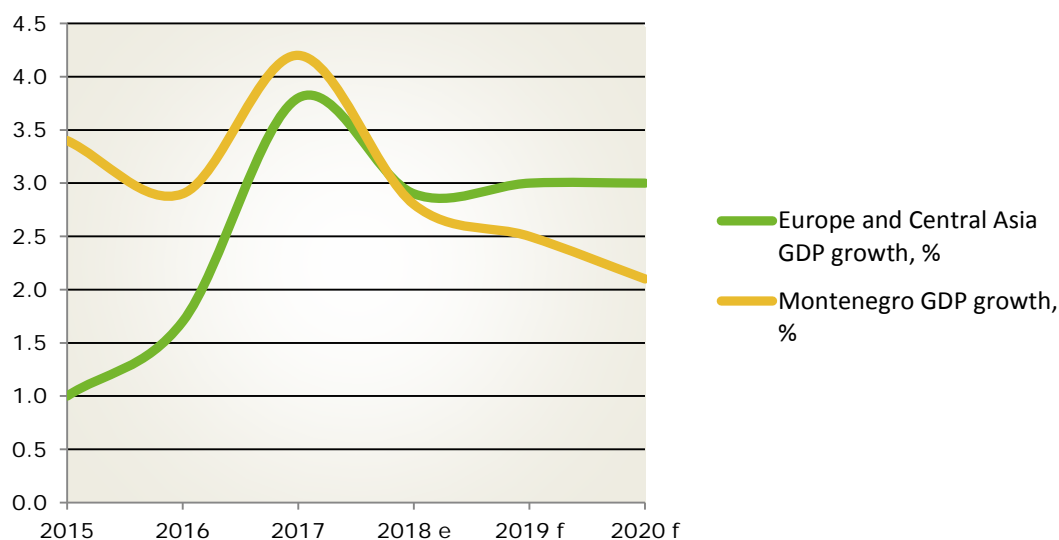
Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2018

In 2018, the economy is projected to grow 3.1%, according to IMF estimates. Growth will be supported by private sector demand and while further fiscal adjustment will drag to the downside. Average inflation is projected at 2.8%, reflecting energy price increases and tax increases as part of the fiscal adjustment. Nevertheless, due to capital investment imports, the current account deficit is projected to remain high at 19% of GDP — a level that requires substantial external support.

The primary fiscal deficit in 2018 should improve by 3.0 pp of GDP to 1.6% of GDP. Capital spending will remain high and includes 6% of GDP in highway investment.

According to IMF, the lack of an independent currency and declining 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. Low labor productivity and employment levels and a large informal sector limit potential growth. The government's plans to reform labor laws provide an opportunity to improve the flexibility of labor market outcomes, boost participation rates, and reduce informality.

**Montenegro Economy vs Europe and Central Asia**



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 sectors)	1.9	3.9	2.5	4.2	2.8	2.5
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

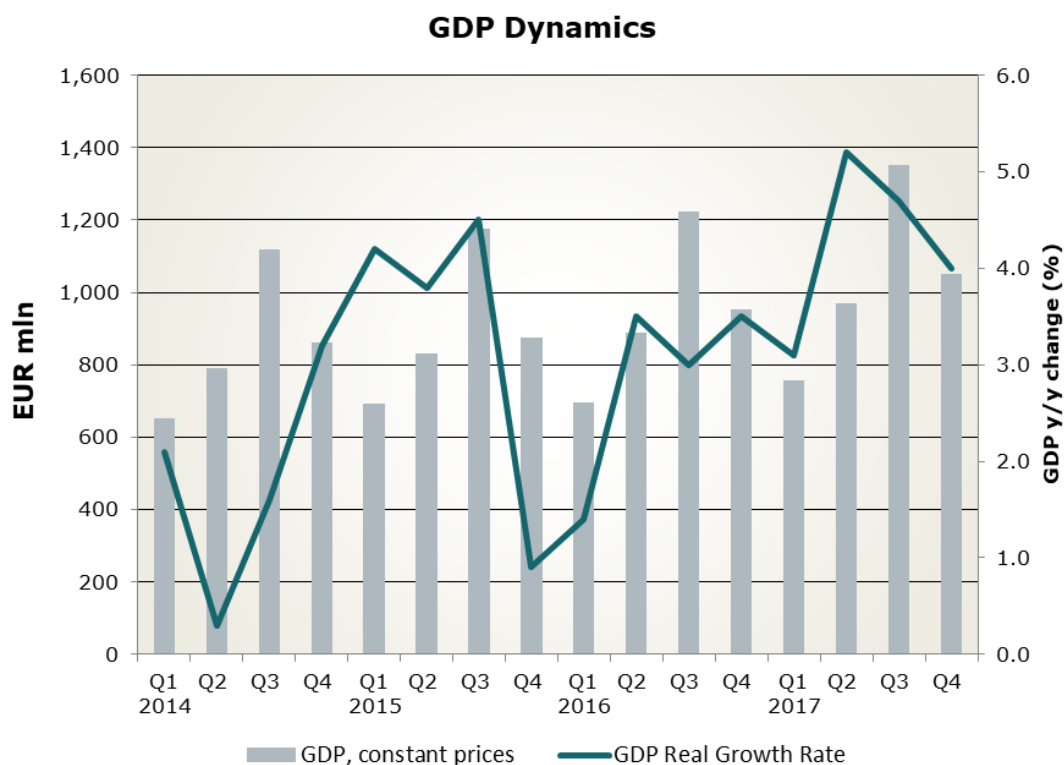
## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

*GDP growth decelerated to 4.0% y/y in Q4 2017, down from 4.7% in Q3 2017*

The economy of Montenegro continues to grow at strong rates in Q4 2017. The country's real GDP annual growth was 4.0% in Q4 2017, after 4.7% y/y growth in Q3 2017, according to the Statistical Office of Montenegro (MONSTAT).

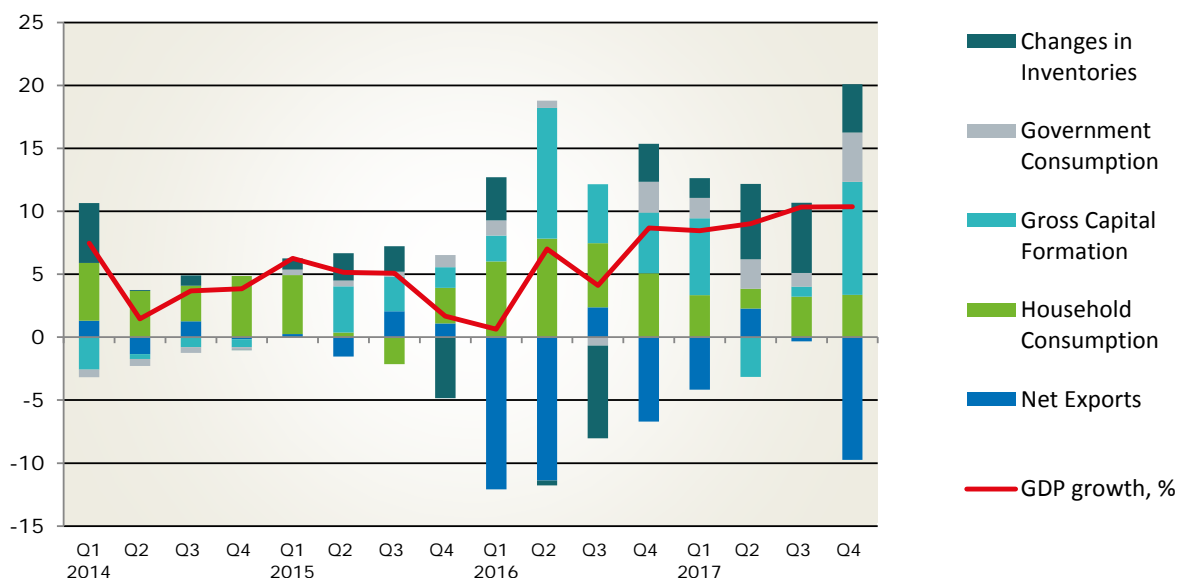
The GDP totalled EUR 1.051 bln in constant prices in Q4 2017, compared to EUR 952.2 mln in Q4 2016.



Source: MONSTAT

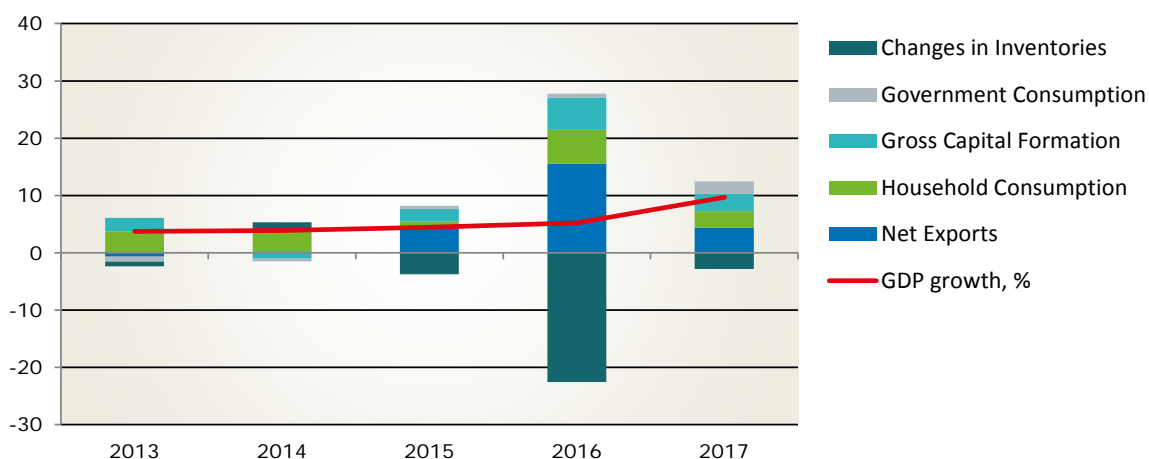
Final consumption increased in value terms by 6.5 % on the year to EUR 1.109 bln in Q4 2017. Gross capital formation went up by 40% y/y to EUR 1.1 bln. Exports declined by 4.2% on the year, and imports advanced by 13.9% compared to Q4 2016.

**Contributions to GDP Growth**  
pp, non-seasonally adjusted data, y/y



Source: MONSTAT

**Contributions to GDP Growth**  
pp, non-seasonally adjusted data, y/y



Source: MONSTAT

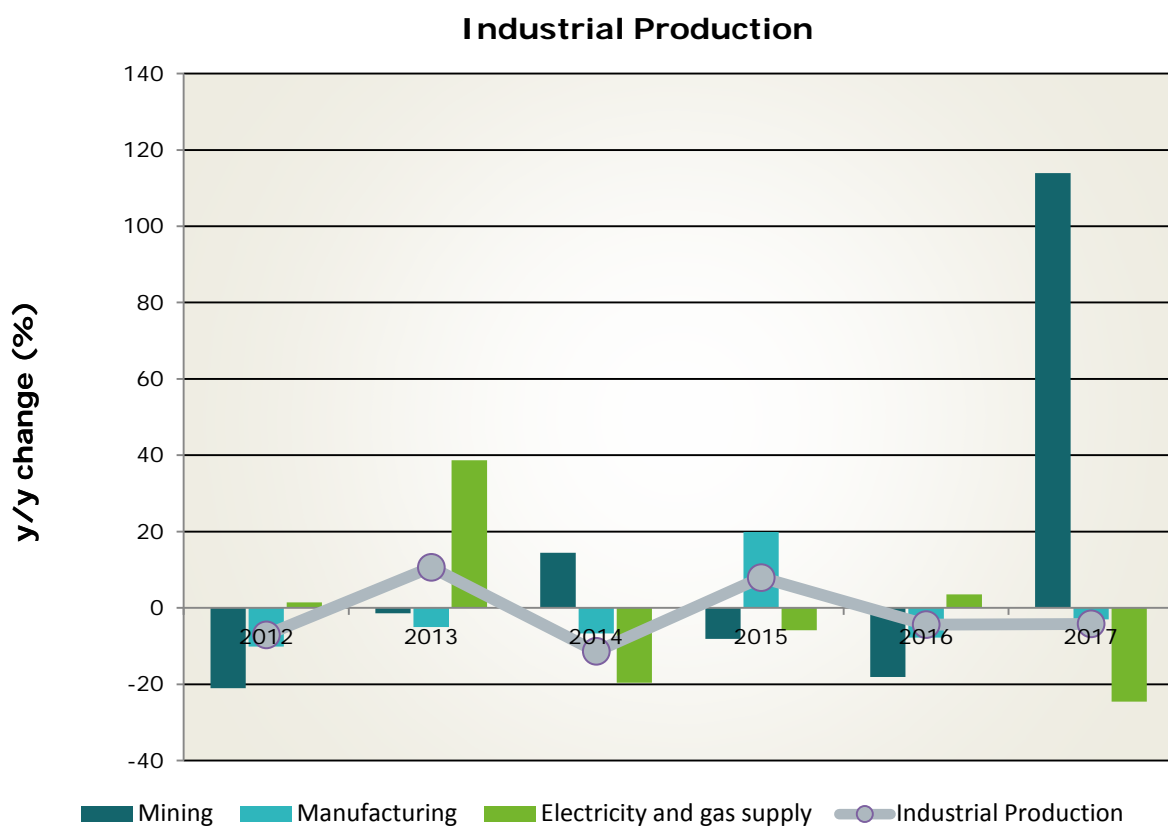
## 2.2. INDUSTRIAL OUTPUT

### Industrial output down 4.2% y/y 2017

Industrial output went down by 4.2% on the year in 2017, according to MONSTAT.

The overall fall was caused by the electricity and gas supply industry, which shrank by 24.6% on an annual basis, and the production at manufacturing industry, which fell by 3.0% y/y.

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

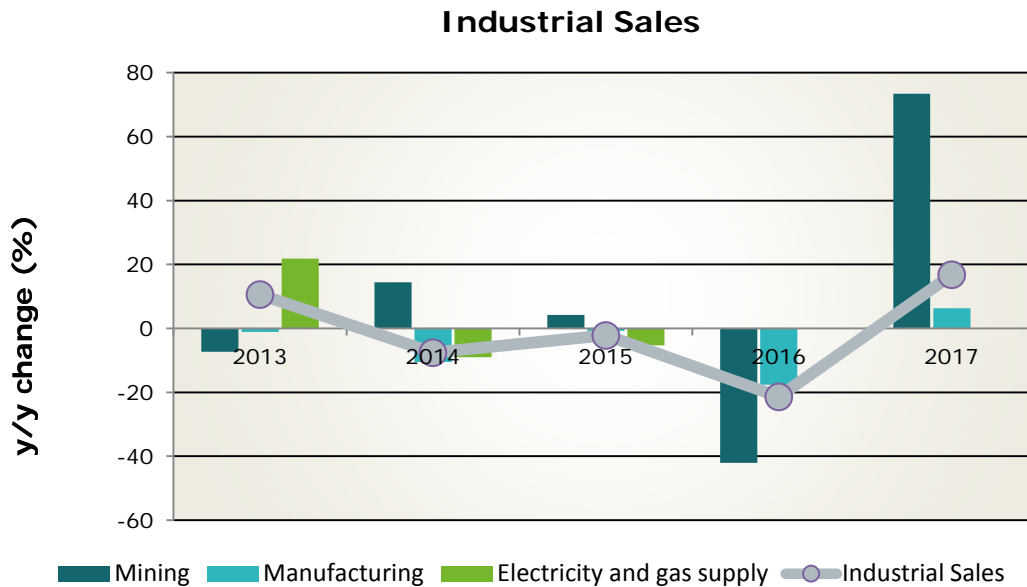


Source: MONSTAT

## 2.3. INDUSTRIAL SALES

### Industrial sales increased by 16.8% y/y in 2017

Industrial sales went up by 16.8% in 2017, according to MONSTAT. The uptrend in the period under consideration was mainly due to the 73.4% increase in the sales of the mining sector. On the other hand, manufacturing industry reported a 6.3% annual rise.



Source: MONSTAT

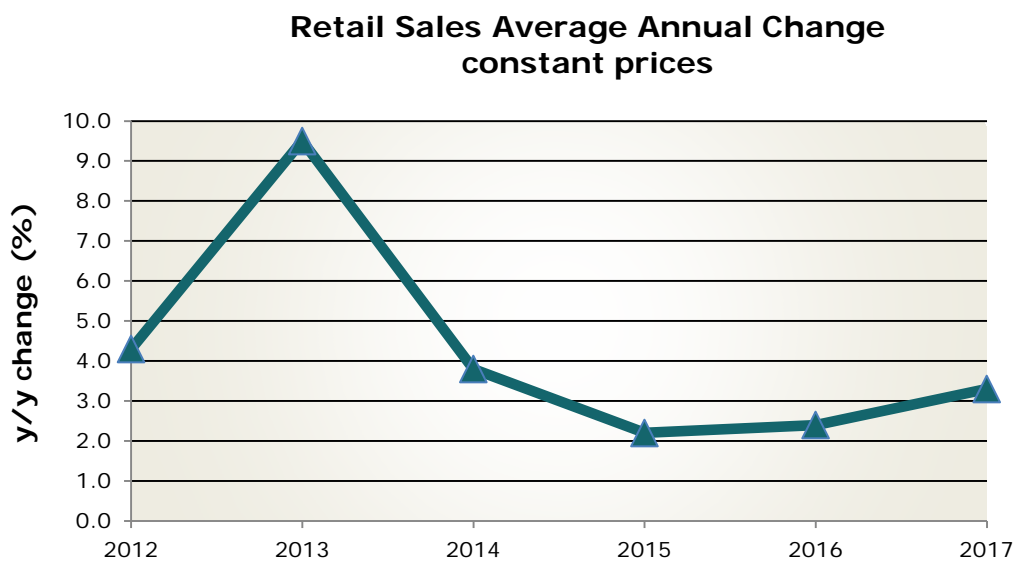
Editor's note: Data for electricity and gas supply sales was not available after 2015.

## 2.4. WHOLESALE/RETAIL

### Retail sales grew 3.3% y/y in 2017

Retail sales went up by 3.3% in constant prices in 2017, compared to 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.



Source: MONSTAT

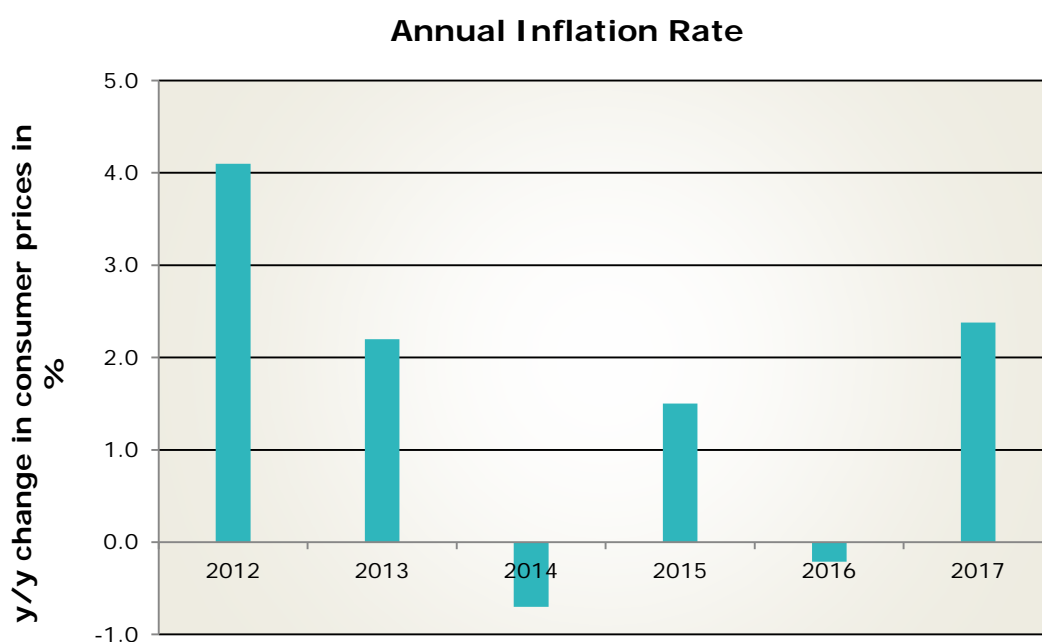


## 2.5. INFLATION

### *Average inflation of 2.38% y/y in 2017*

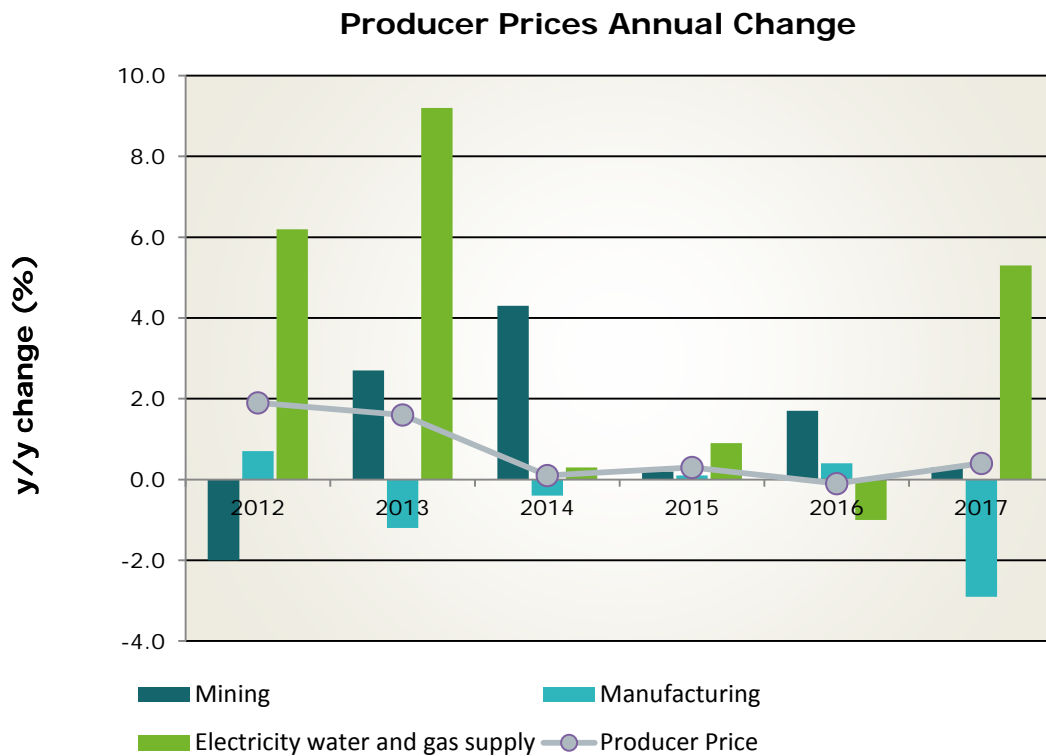
Montenegro registered an average annual inflation of 2.4% in 2017, according to MONSTAT data. This is compared to a deflation of 0.2% in 2016.

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 0.4% in 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 2.9%. The mining sector experienced production prices rise of 0.3% on average.



Source: MONSTAT

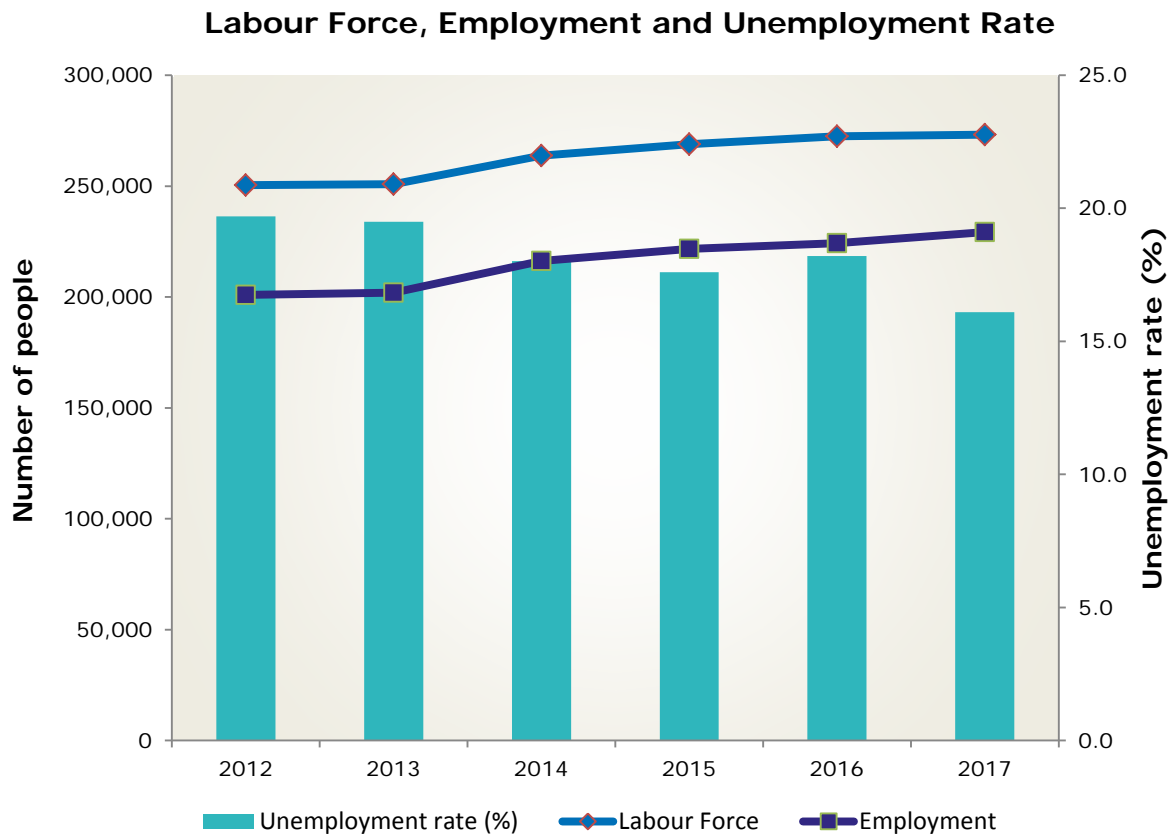
### 3. LABOUR MARKET

#### *Unemployment rate at 16.1%, wages up 2.2% y/y in 2017*

Unemployment in Montenegro fell to 16.1% of the total labour force in 2017 from 18.2% in 2016 and 17.6% in 2015, according to data of MONSTAT.

The employed population aged 15 years and older was 229,300 people in 2017, up by 2.3% compared to the 224,200 a year earlier.

The youth (population aged 15-24) unemployment rate went down to 31.7% y/y from 35.9% in 2016.



Source: MONSTAT

According to MONSTAT, the average monthly net salary in 2017 increased by 2.2% y/y to EUR 510.

## 4. CONSTRUCTION AND REAL ESTATE

*The number of building permits grew by 6.8% y/y in 2017*

The number of building permits issued in Montenegro in 2017 increased by 6.8% y/y and totalled 1,050, according to MONSTAT data.

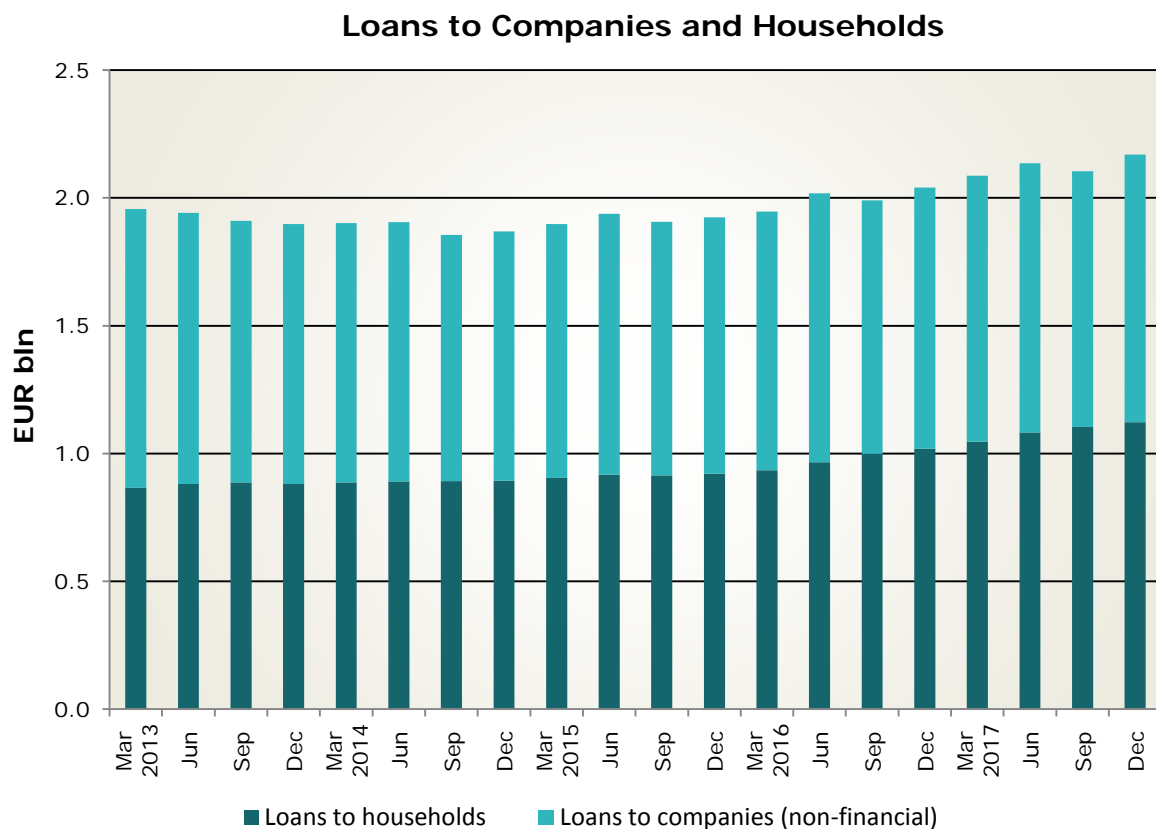
In line with the overall growth, the number of dwellings, covered by the permits, also increased nearly by 50% y/y to 4,439 and their total built-up area scaled up to 295,889 sq m from 215,229 sq m.

## 5. BANKING AND INSURANCE

### Household loans grew by 10.3% y/y at end-December 2017

Loans to the non-government and non-financial sector totalled EUR 2.170 bln as of December 2017, up by 6.4% y/y, according to Central bank of Montenegro (CBCG).

Household loans grew by 10.3% to EUR 1.123 bln, accounting for 52% of the total loans to the non-government and non-financial sector, while corporate loans inched up by 2.4% to EUR 1.047 bln, slicing a 48% share.



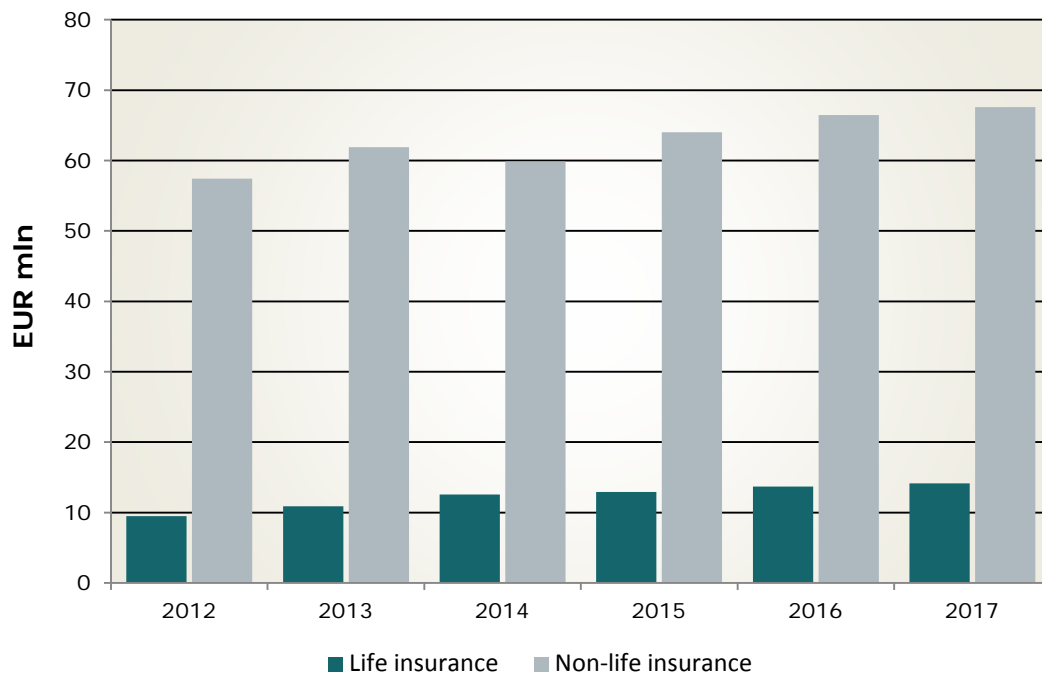
Source: CBCG

### Insurance premiums went up 2.0% y/y in 2017

The total gross written premiums of the Montenegrin non-life and life insurance companies stood at EUR 81.770 mln, up by 2.0% y/y, in 2017, according to the country's Insurance Supervision Agency (ANO).

The premiums of the non-life insurance market stood at EUR 67.607 mln, or by 1.7% more than a year earlier, while the life insurance sector grew by 3.4% to EUR 14.163 mln.

## Gross Written Premiums in Non-life and Life Insurance



Source: ANO

## 6. CAPITAL MARKETS

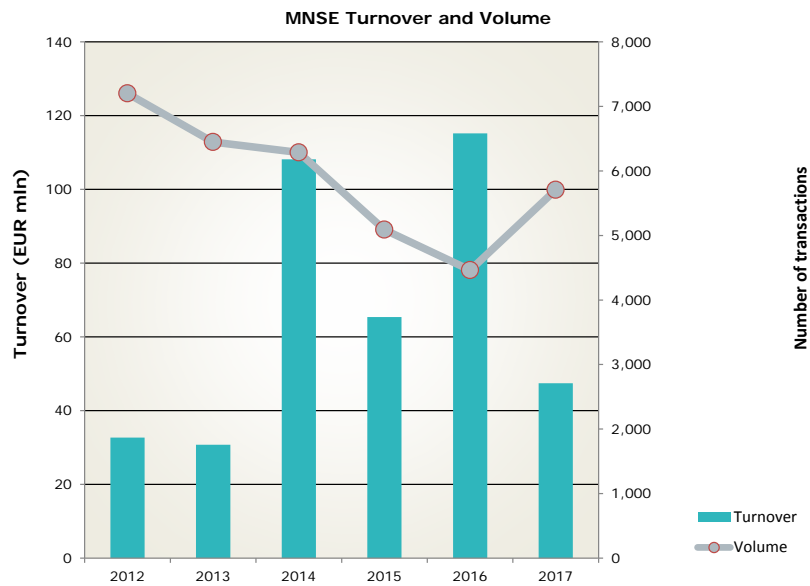
### Blue-chip MNSE10\* down to 866 points in end-2017

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

In end-2017, the value of MNSE10, the blue-chip index of the Montenegro Stock Exchange (MNSE) came in at 866 points, down 7.6% y/y from 936 points in 2016.

MNSE's market capitalization went down by 0.8% y/y to EUR 2.855 bln at end-December 2017.

The total turnover on the bourse fell to EUR 47.455 mln in 2017 from EUR 115.175 mln a year earlier.



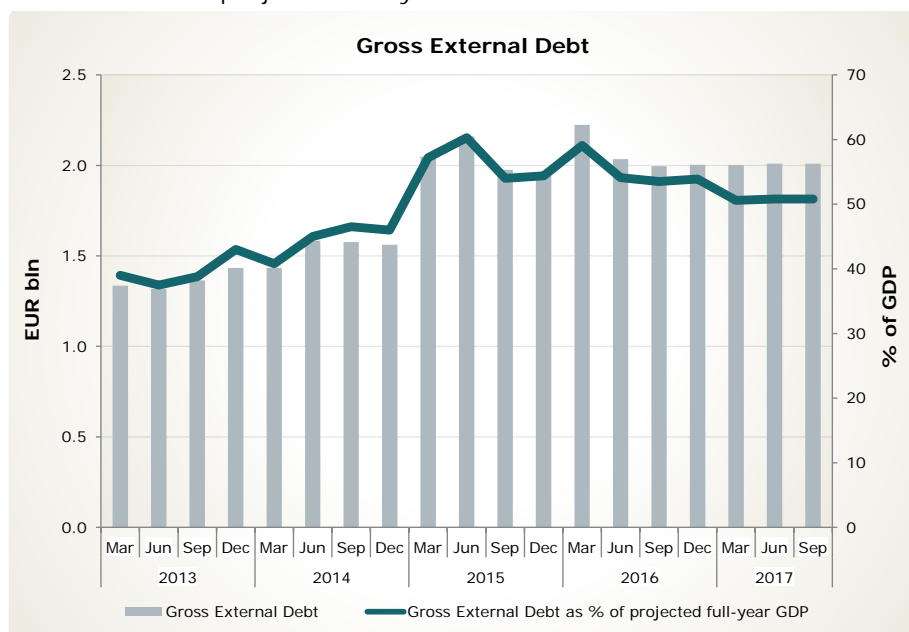
Source: MNSE

## 7. EXTERNAL SECTOR

### 7.1. FOREIGN DEBT

*The gross external debt increased annually to EUR 2.059 bln at end-September 2017*

The gross external debt expanded to EUR 2.059 bln at the end of September 2017, up by 3.2% or EUR 50.0 mln, compared to a year earlier, according to CBCG. The gross external debt accounted for 50.8% of the projected full-year GDP.



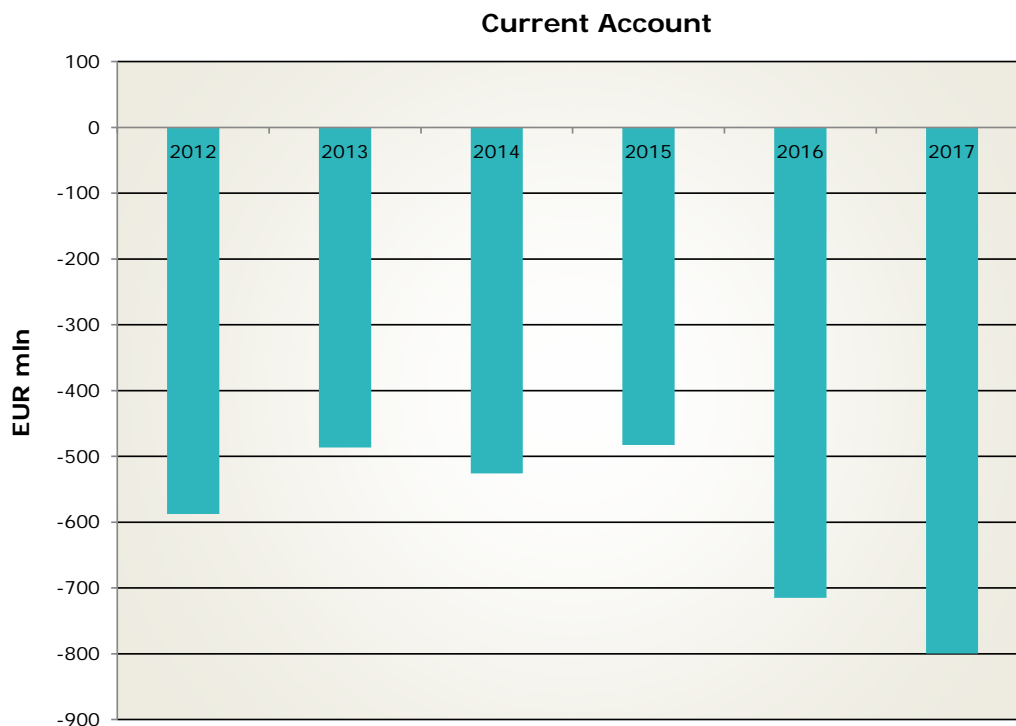
Source: CBCG

## 7.2. BALANCE OF PAYMENTS

### *Current account deficit at EUR 799.5 mln in 2017*

The current account deficit expanded to EUR 799.5 mln in 2017 from EUR 715.0 mln in 2016, according to central bank statistics data.

Secondary income went up by 13.0% y/y to EUR 136.0 mln compared to EUR 120.4 mln in 2016.



Source: CBCG

## 7.3. FDI

### *Net FDI inflow at EUR 649.2 mln in 2017*

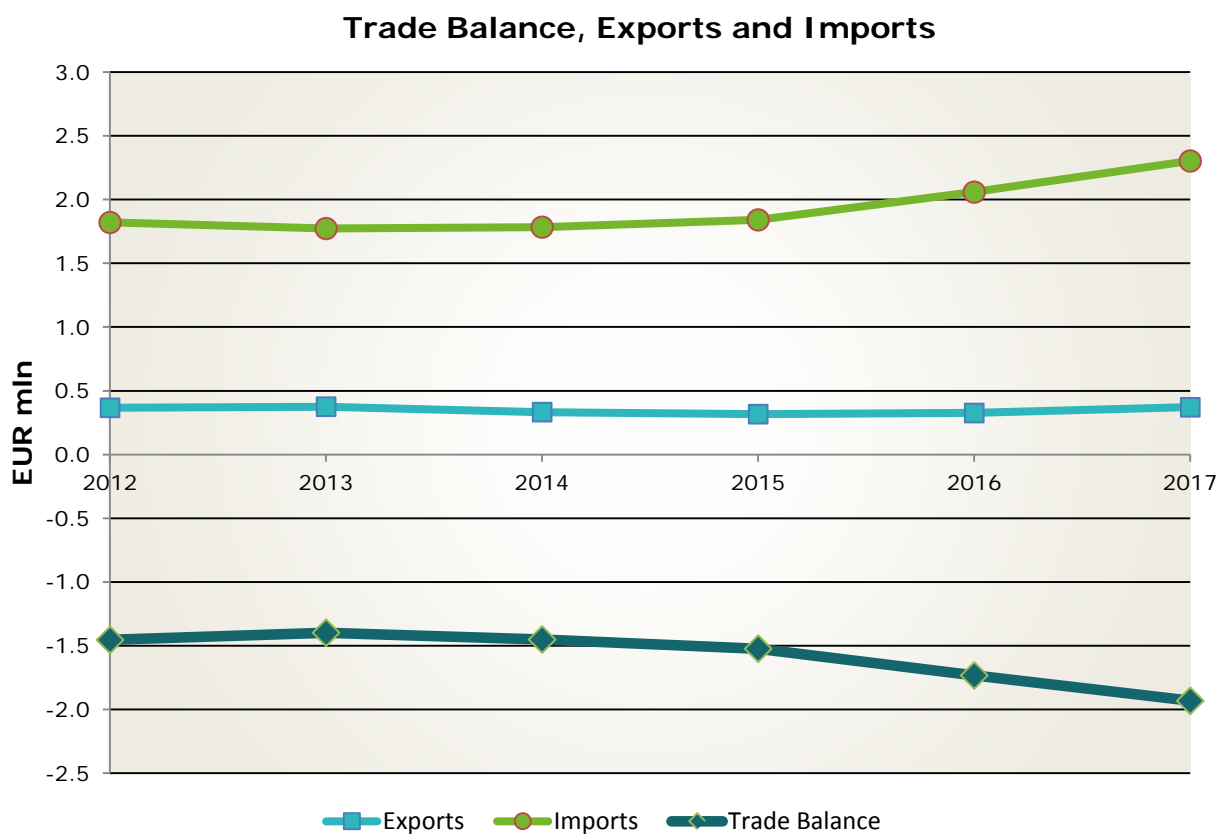
During full-2017, net FDI in Montenegro amounted to EUR 649.2 mln, according to CBCG data. This is a decrease from the net FDI inflow of EUR 687.2 mln in 2016.

## 7.4. FOREIGN TRADE

### *Foreign trade deficit grew by 11.5% y/y in 2017*

The trade deficit stood at EUR 1.932 bln in 2017, up 11.5% y/y, according to CBCG.

Exports increased by 13.8% y/y to EUR 371.1 mln, while imports went up by 11.9% y/y to EUR 2.303 bln. The coverage of imports by exports was 16.1%, slightly higher compared to the coverage for 2016, of 15.8%.



Source: MONSTAT

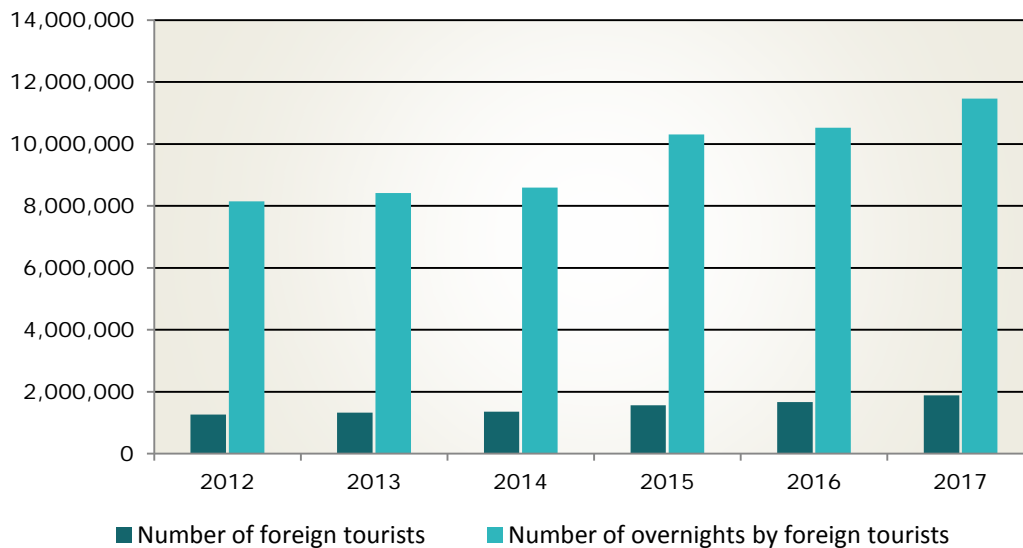
## 7.5. TOURSIM

### *Number of foreign tourist overnights increased by 6.3% y/y in 2017*

Tourist overnights of foreigners rose by an annual 6.3% to 11.9 million in 2017, according to MONSTAT. The number of foreign tourists grew even faster, at a rate of 12.9% y/y. The share of foreign visitors in total overnights in Montenegro remained very high, at 96.0%.



## Tourism Statistics



Source: MONSTAT

## 8. MAJOR DEVELOPMENTS

### **Montenegro's parl adopts 2018 budget, deficit set at 2.6% of GDP**

Dec 27, 2017

Montenegro's parliament announced it adopted the state budget for 2018 envisaging a deficit of EUR 116.2 mln (USD 138.2 mln) equivalent to 2.6% of the estimated gross domestic product (GDP).

[Read the full story here](#)

### **World Bank approves EUR 80 mln guarantee to Montenegro**

Dec 21, 2017

The World Bank approved a EUR 80 mln (USD 95 mln) guarantee to support a package of reforms to strengthen public finance and financial sector resilience in Montenegro.

[Read the full story here](#)

### **Montenegro in talks with several investors on EPCG sale**

Dec 15, 2017

Montenegro's government is in talks with several financial institutions willing to support the privatisation of power utility Elektroprivreda Crne Gore (EPCG) following the sale of the 41.7% stake held by Italian sector player A2A.

[Read the full story here](#)

### **EBRD promotes capacity building of Montenegro's competition watchdog**

Dec 15, 2017

The European Bank for Reconstruction and Development (EBRD) announced it is promoting a capacity building project for the Montenegrin Agency for the Protection of Competition to encourage the fair and competitive business environment in the country.

[Read the full story here](#)

### **Montenegro opens two new chapters in EU accession talks**

Dec 11, 2017

According to the Montenegro's ministry of European integration, the government will open two more chapters in its membership negotiations with the European Union.

[Read the full story here](#)

### **Montenegro needs to improve transport, energy links**

Nov 23, 2017

Montenegro should take steps to improve the standard of regional roads and to strengthen the functioning of the regional energy market, as cross-border transport and energy links are crucial for further growth and investment, according to the European Bank for Reconstruction and Development (EBRD).

[Read the full story here](#)

### **EC raises Montenegro's 2017 GDP growth forecast on infrastructure investment**

Nov 9, 2017

The European Commission announced it increased its forecast for Montenegro's economic growth in 2017 to 3.9% from 3.3% projected in May, to be driven by large infrastructure investments.

[Read the full story here](#)

### **Montenegro aims to close EU accession talks before 2025**

Nov 2, 2017

Montenegro's prime minister Dusko Markovic expects the country to complete its accession talks with the European Union before 2025.

[Read the full story here](#)

### **Montenegro to spend EUR 180 mln on Bar-Boljare motorway project in 2017**

Oct 30, 2017

Montenegro's transport minister Osman Nurkovic announced he expects the government's expenditures for the construction of the Bar-Boljare motorway this year to reach EUR 180 mln (USD 209 mln).

[Read the full story here](#)

### **S&P improves outlook on Montenegro's B+ rating to stable on fiscal tightening**

Oct 09, 2017

Standard & Poor's raised its outlook on Montenegro to stable from negative to reflect the government's fiscal consolidation efforts, while at the same time affirming its B+ long-term and B short-term foreign and local currency sovereign credit ratings.

[Read the full story here](#)

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