

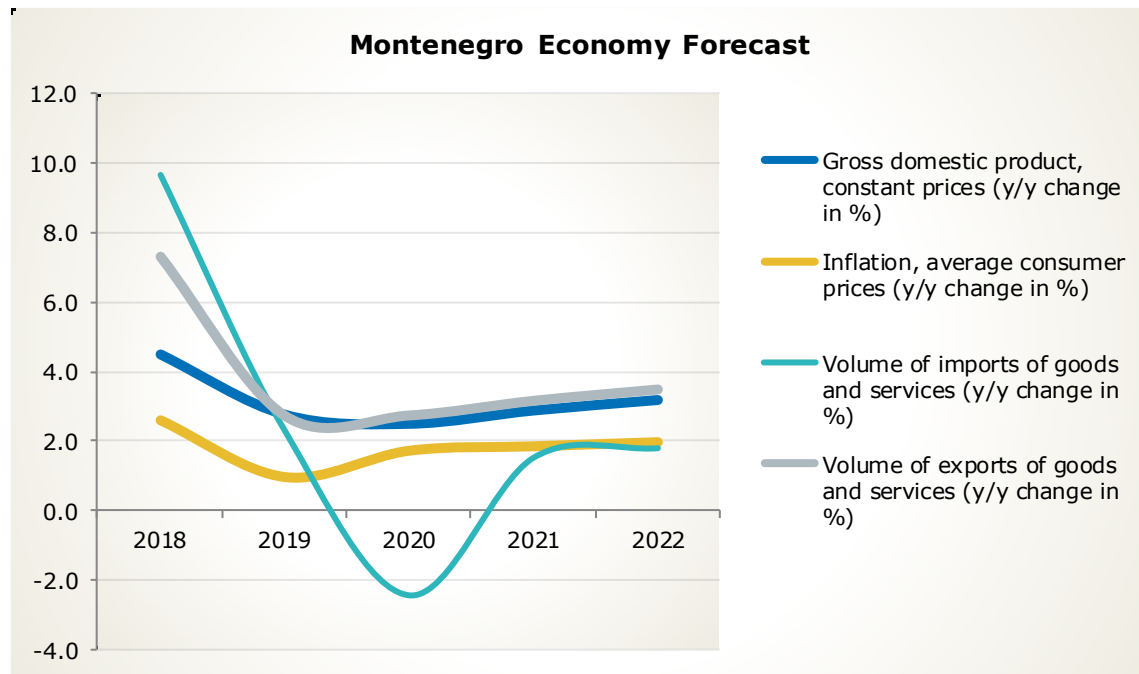
## **MONTENEGRO ECONOMY REPORT** 2018

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

MONTENEGRO – MACROECONOMIC SNAPSHOT AS OF 2018	
<b>GDP Growth</b>	4.8% y/y (Q4 2018)
<b>Industrial output</b>	22.4% y/y
<b>Industrial sales</b>	17.4% y/y
<b>Retail sales</b>	3.4% y/y
<b>Average annual inflation</b>	2.61%
<b>Unemployment rate</b>	15.2%
<b>Number of building permits</b>	-71.9% y/y
<b>Household loans</b>	11.9% y/y
<b>MNSE10 blue-chip index</b>	-7.3% y/y
<b>Gross External Debt</b>	EUR 2.701 bln (Q3 2018)
<b>Current account deficit</b>	EUR 793.0 mln
<b>FDI inflow</b>	EUR 843.1 mln
<b>Foreign trade deficit</b>	EUR 2.154 bln
<b>Number of foreign tourist overnights</b>	8.8% y/y



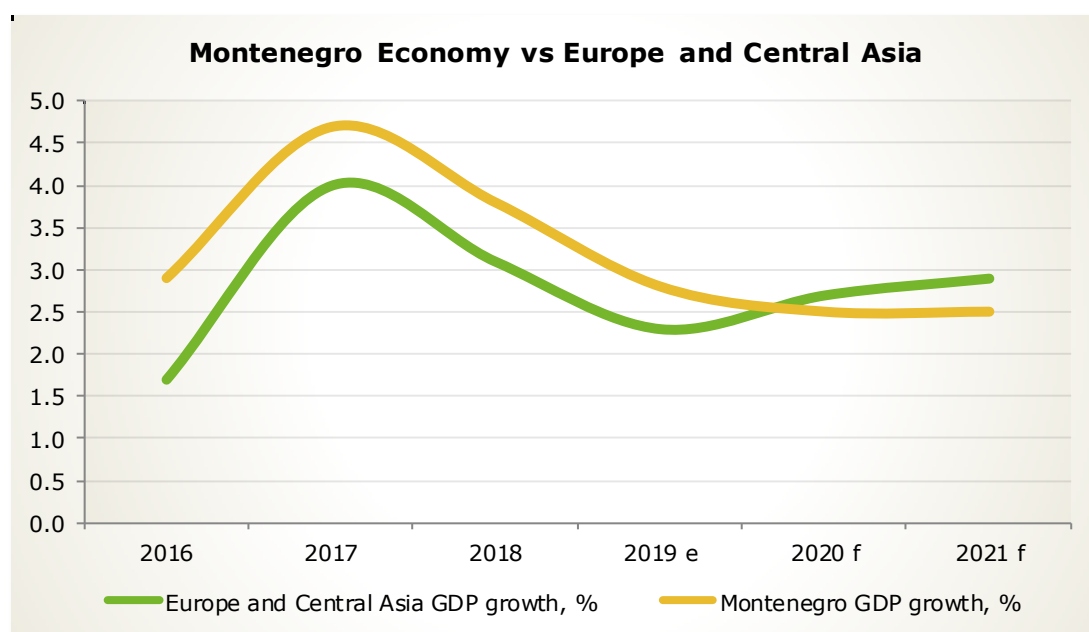
Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2019

IMF expects the economy of Montenegro to expand by 2.8% in 2019, down from 4.5% in 2018 and 4.0% 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, GDP growth is likely to come in at 2.8% in 2019, down from 3.8% in 2018. This will be higher than the projected growth for Europe and Central Asia, of 2.3% in 2019.



Source: World Bank, Global Economic Prospects, April 2019

Montenegro – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)							
	2016	2017	2018 e	2019 f	2020 f	2021 f	
Real GDP growth, at constant market prices, y/y change in %	2.9	4.7	4.4	2.9	2.4	2.3	
Private Consumption	5.4	3.9	3.0	2.1	2.4	2.0	
Government Consumption	0.8	-1.4	2.9	-1.2	-0.3	-0.3	
Gross Fixed Capital Investment	38.4	18.7	15.0	6.5	-2.8	-2.8	
Exports, Goods and Services	5.9	1.8	6.6	3.7	4.6	4.8	
Imports, Goods and Services	15.3	8.4	9.0	3.5	0.1	0.1	
Real GDP growth, at constant factor prices (by sectors)	2.9	4.7	4.4	2.9	2.4	2.3	
Agriculture	3.9	-3.1	0.0	0.1	0.5	1.0	
Industry	22.7	18.9	5.0	3.4	2.9	2.5	
Services	-22.9	-21.4	4.7	2.8	1.7	2.4	
Inflation (Consumer Price Index)	-0.3	2.4	2.6	2.0	1.9	1.9	
Current Account Balance (% of GDP)	-16.2	-16.1	-17.1	-17.1	-14.9	-11.4	
Net Foreign Direct Investment (% of GDP)	9.4	11.3	7.1	8.7	8.4	7.9	

Source: World Bank, Europe and Central Asia Economic Update, April 2019

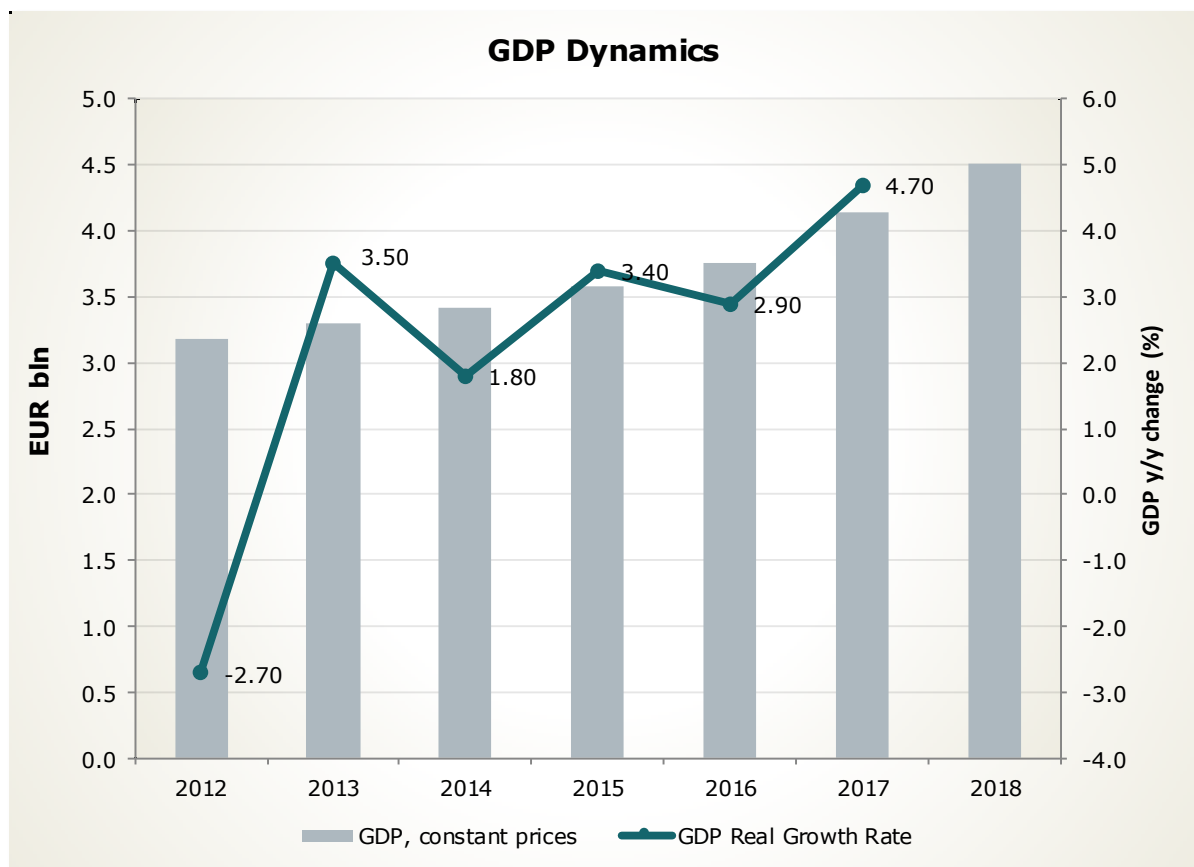
## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### GDP growth stayed strong at 4.8% y/y in Q4 2018

The economy of Montenegro continued to stay at strong rates during the last quarter of 2018. The country's real GDP annual growth was 4.8% in Q4 2018 and 5.0% y/y growth in Q3 2018, according to the Statistical Office of Montenegro (MONSTAT).

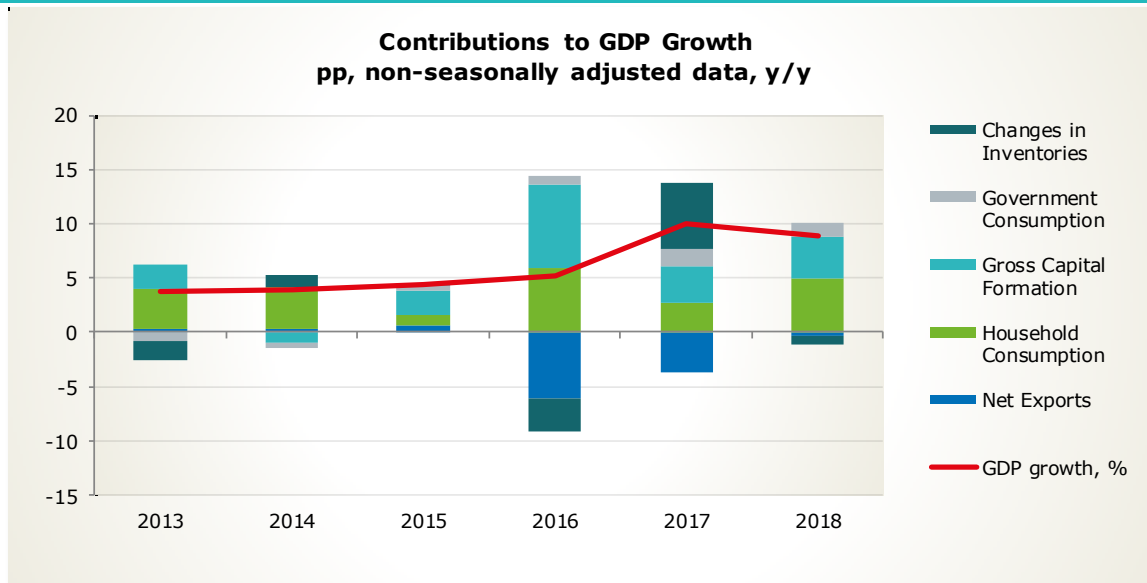
Montenegro's economy is growing strongly, boosted by the implementation of large investment projects, including the construction of the Bar-Boljare highway. The GDP totaled EUR 4.508 bln in constant prices in 2018, compared to EUR 4.141 bln during the previous year.



Source: MONSTAT

Editor's note: Annual data for GDP Real Growth Rate for 2018 was not available at the time of preparation of this report.

Final consumption increased in value terms by 6.4% on the year to EUR 4.171 bln in 2018. Gross capital formation went up by 14.4% y/y to EUR 1.329 bln. Exports grew by 18.3% on the year, and imports - by 12.0%.



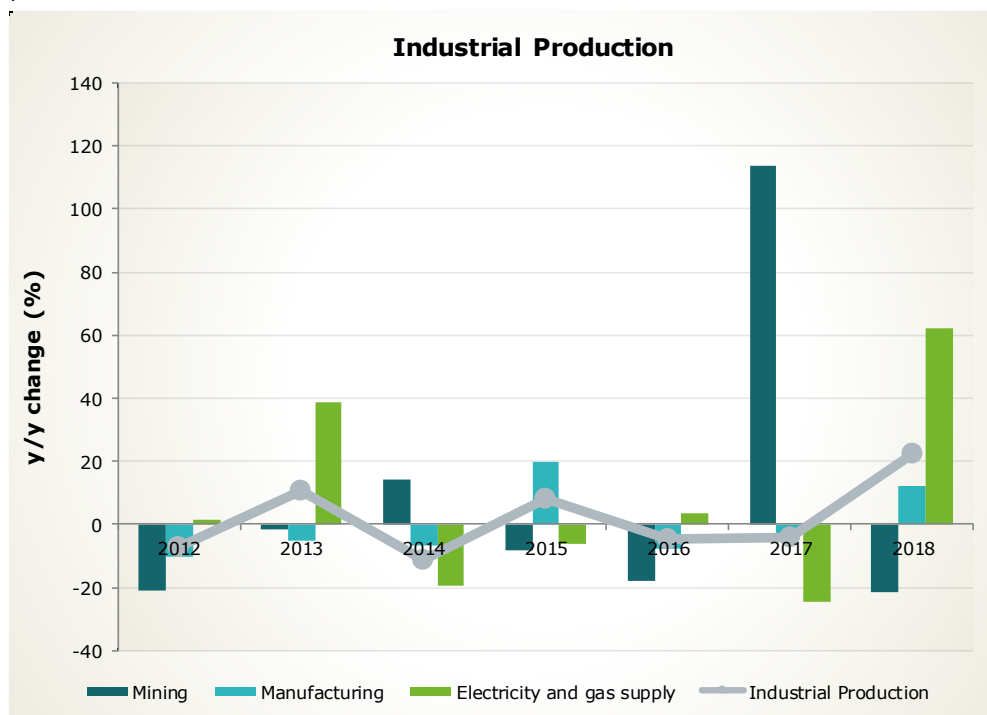
Source: MONSTAT

## 2.2. INDUSTRIAL OUTPUT

### Industrial output surged by 22.4% y/y in 2018

Industrial output jumped by 22.4% on the year in 2018, according to MONSTAT.

The surge was boosted by the output of the electricity and gas supply industry, which registered an annual rise of 62.1%, compared to a 24.6% y/y drop in 2017. The production of the manufacturing industry went up by 12.1% y/y, while the output of the mining sector fell by 21.3% y/y.



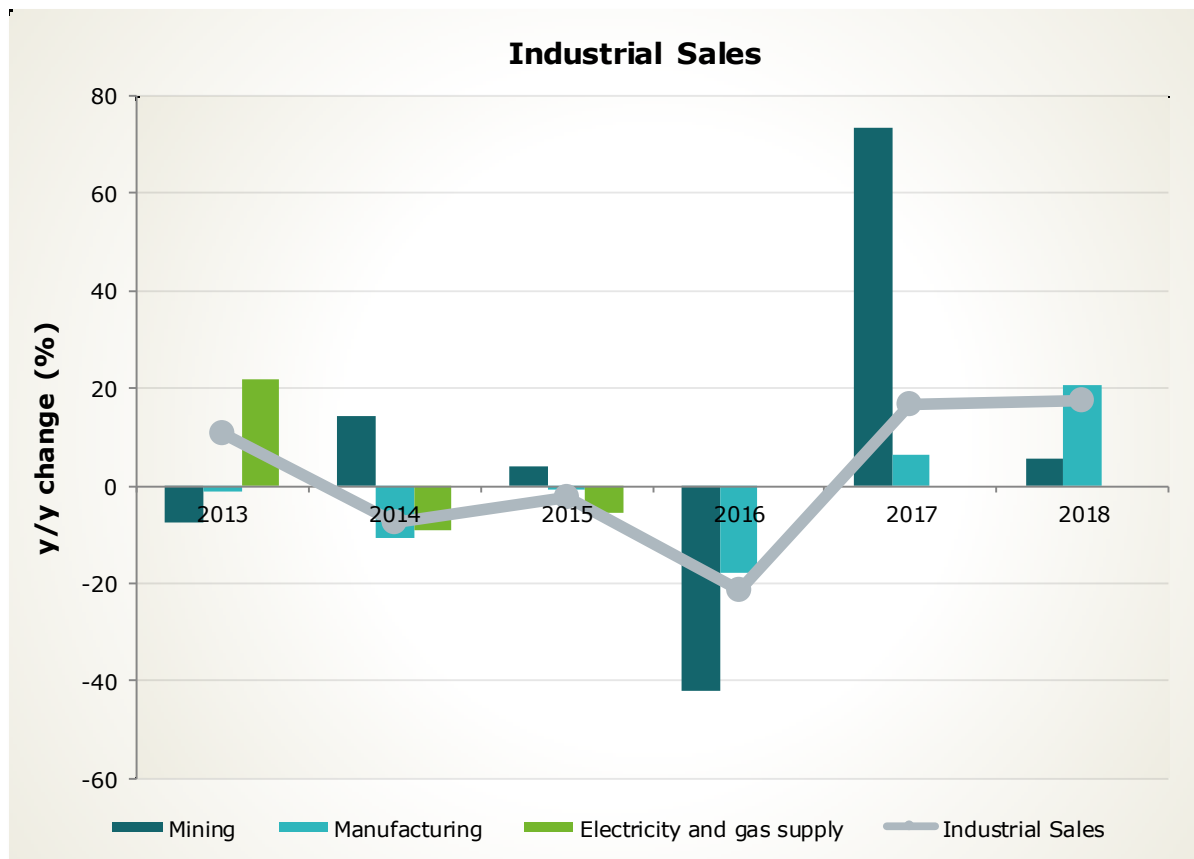
Source: MONSTAT

## 2.3. INDUSTRIAL SALES

### Industrial sales increased by 17.4% y/y in 2018

Industrial sales went up by 17.4% y/y in 2018, according to MONSTAT.

The uptrend in the period under consideration was mainly due to the 20.5% y/y increase in the sales of the manufacturing industry. Sales of the mining sector grew by 5.5% y/y.



Source: MONSTAT

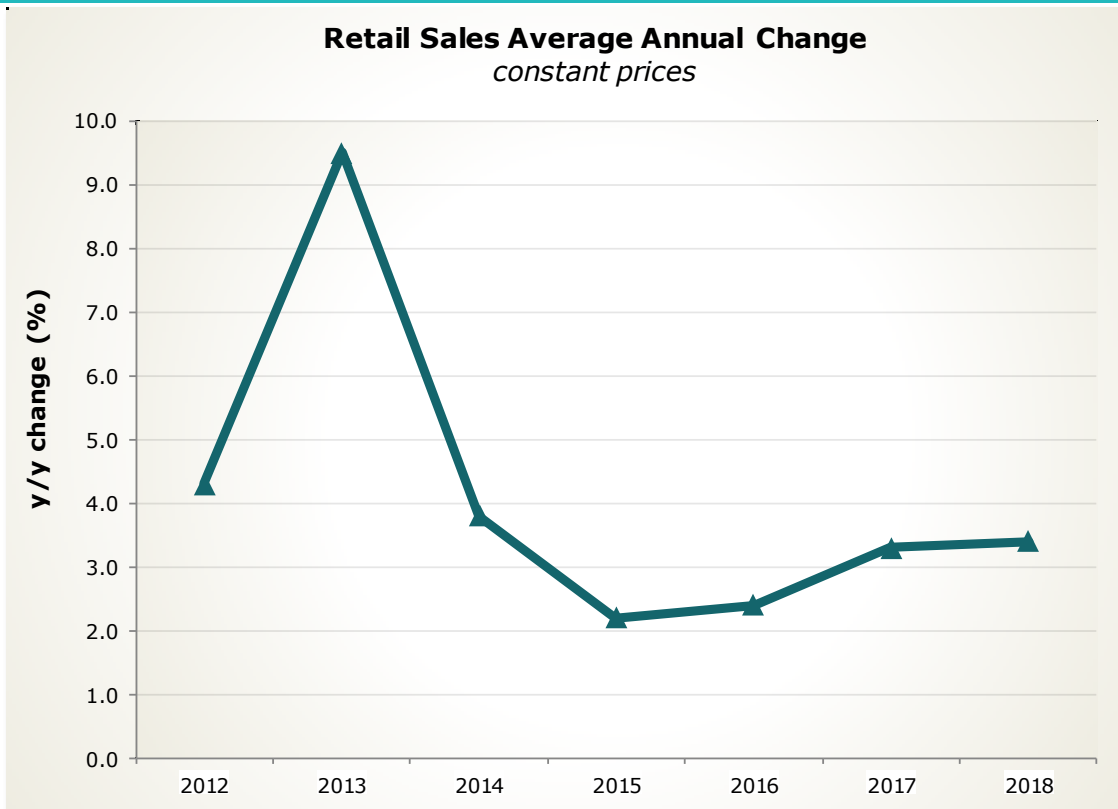
Editor's note: Data for electricity and gas supply sales was not available after 2015.

## 2.4. WHOLESALE/RETAIL

### Retail sales grew 3.4% y/y in 2018

Retail sales went up by 3.4% y/y in constant prices in 2018, compared to 3.3% y/y rise in 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 previous year was achieved in the retail trade of food, 7.1% at constant prices. The largest share in the total retail trade turnover in Montenegro was held by aggregate of retail trade without retail trade of motor fuels, which in December 2018 amounted to 93.5% of the total turnover.



Source: MONSTAT

## 2.5. INFLATION

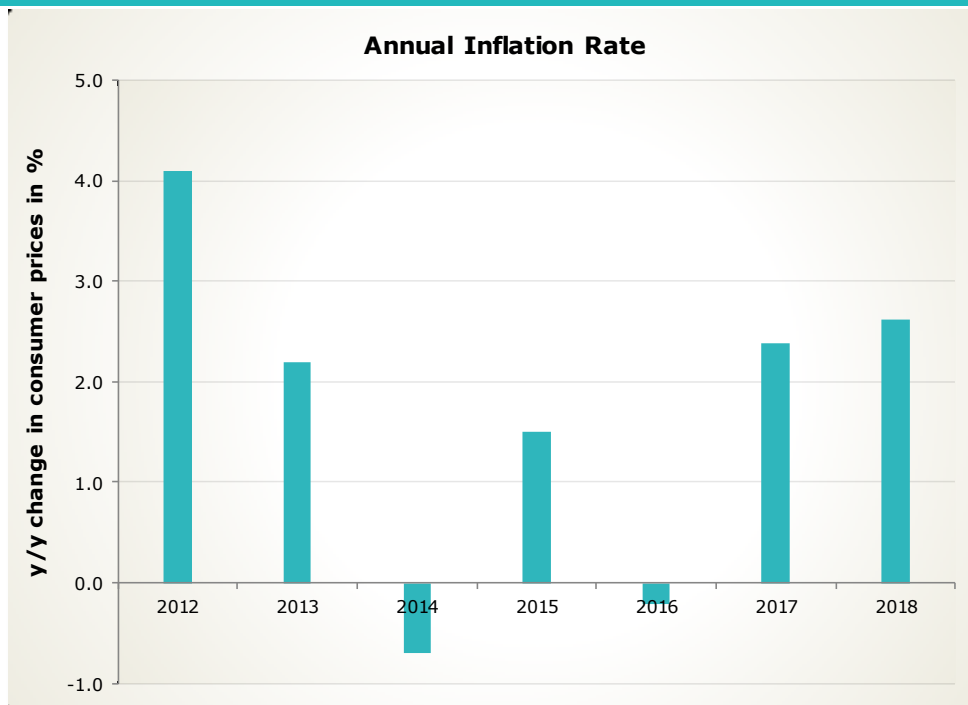
### Average annual inflation at 2.6% y/y in 2018

Montenegro registered an average annual inflation of 2.6% in 2018, according to MONSTAT data. This is compared to an inflation of 2.4% in 2017.

Segment wise, the inflation was influenced mostly by decrease in prices of fuels and lubricants for personal transport equipment, garments, vegetables, meat, shoes and other footwear. Consumer prices in period January-December 2018 compared to the same period of previous year, were higher for 2.6% in average.

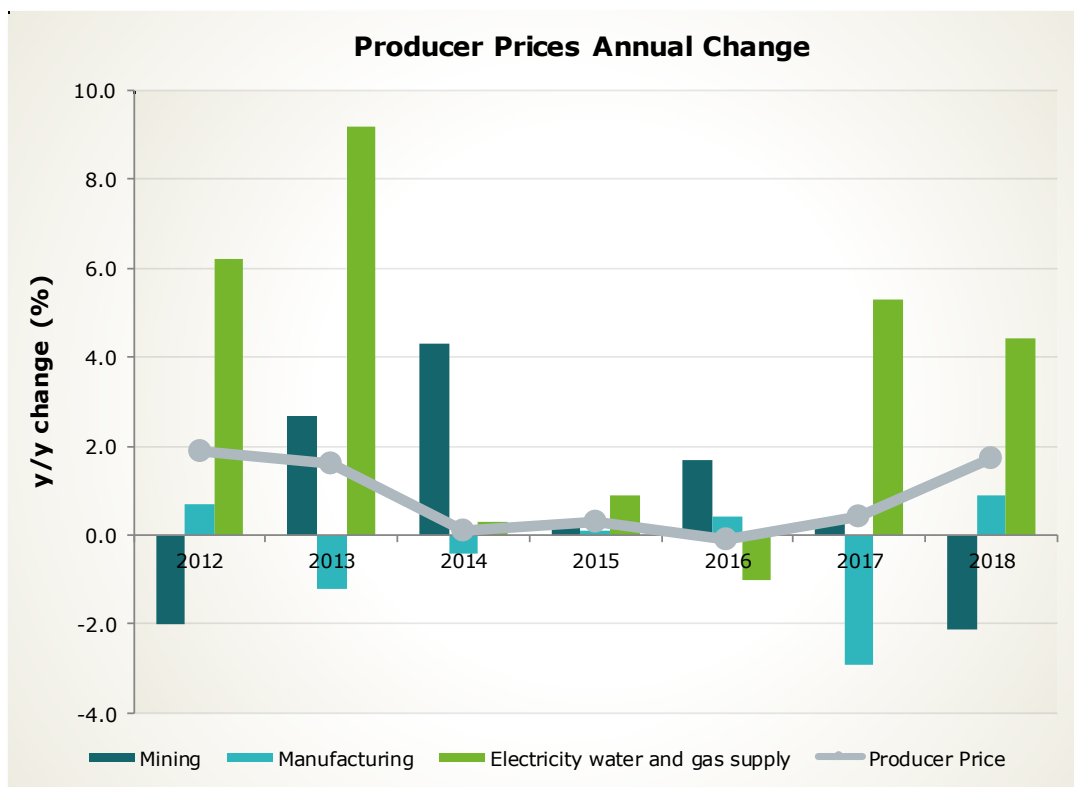
Prices of other products and services mostly remained unchanged.





Source: MONSTAT

Producer prices inched up by 1.7% y/y in 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 0.9%. The mining sector saw producer price decrease of 2.1%.



Source: MONSTAT

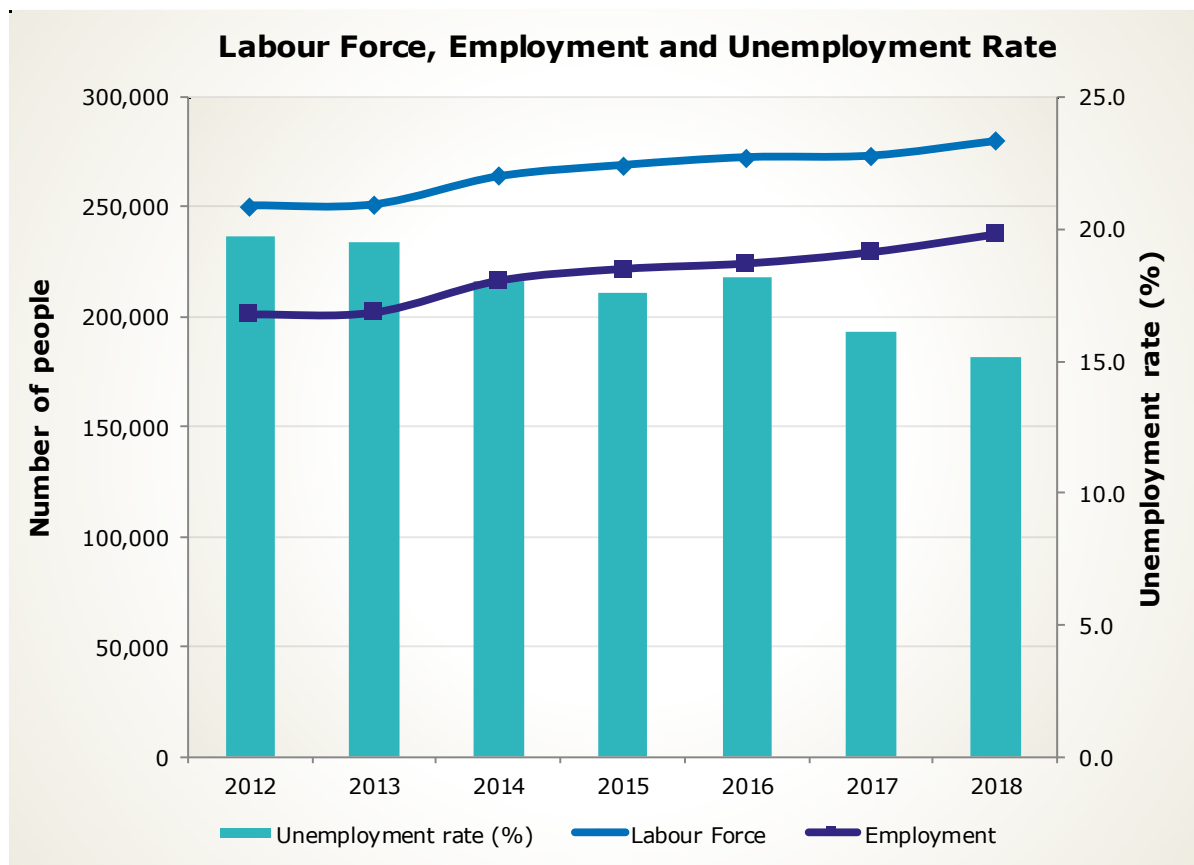
## 3. LABOUR MARKET

### Unemployment rate at 15.2%, wages almost unchanged y/y in 2018

Unemployment in Montenegro eased to 15.2% of the total labour force in 2018, down from 16.1% in 2017, according to data of MONSTAT.

The employed population aged 15 years and older was 237,400 people in 2018, up by 3.5% y/y.

The youth (population aged 15-24) unemployment rate went down to 29.4% y/y from 31.7% in 2017.



Source: MONSTAT

According to MONSTAT, the average monthly net salary in 2018 remained almost unchanged, at EUR 511, compared to EUR 510 a year ago.

## 4. CONSTRUCTION AND REAL ESTATE

### *The number of building permits down by 71.9% y/y in 2018*

The number of building permits issued in Montenegro in 2018 dropped by 71.9% y/y and totaled 295, according to MONSTAT data.

The number of dwellings, covered by the permits, jumped to 2,339 in 2018 from 4,439 in 2017, and their total built-up area decreased to 133,782 sq m from 295,889 sq m in the previous year.

## 5. BANKING AND INSURANCE

### *Household loans grew by 11.9% y/y at end-December 2018*

Loans to the non-government and non-financial sector totalled EUR 1.032 bln as of December 2018, up by 5.9% y/y, according to Central bank of Montenegro (CBCG).

Household loans grew by 11.9% to EUR 1.250 bln, accounting for 45.2% of the total loans to the non-government and non-financial sector, while corporate loans inched down by 1.4%, slicing a 54.8% share.

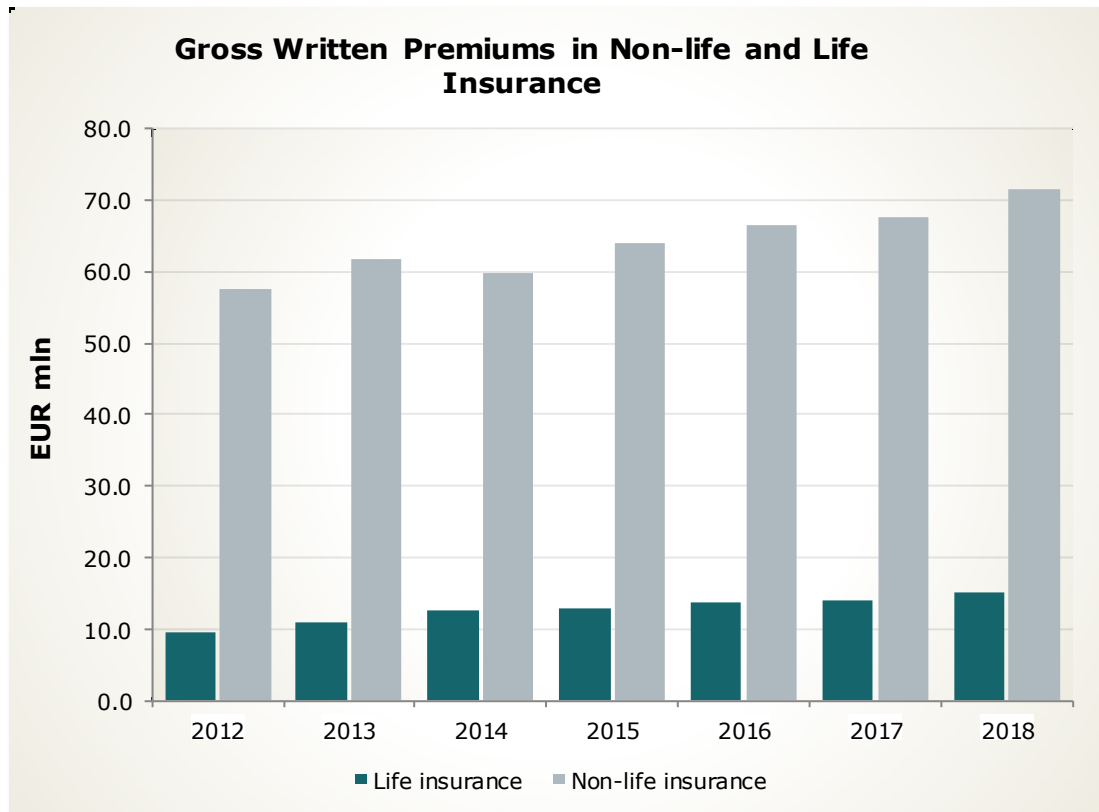


Source: CBCG

## Insurance premiums up 6.2% y/y in 2018

The total gross written premiums of the Montenegrin non-life and life insurance companies stood at EUR 86.829 mln, up by 6.2% y/y, in 2018, according to the country's Insurance Supervision Agency (ANO).

The premiums of the non-life insurance market stood at EUR 71.602 mln, or by 5.9% more than a year earlier, while the life insurance sector grew by 7.5% y/y to EUR 15.227 mln.



Source: ANO

## 6. CAPITAL MARKETS

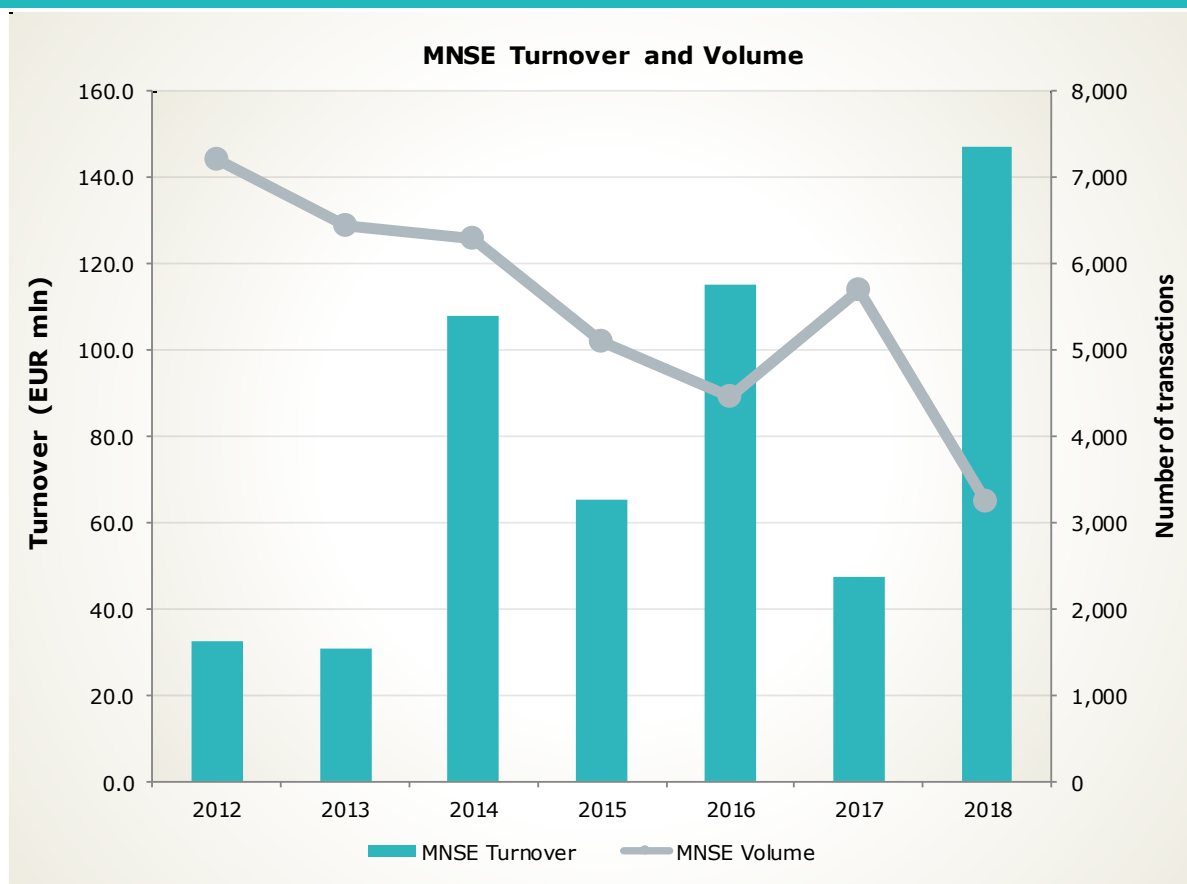
### Blue-chip MNSE10\* averaged 802 points in 2018

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

In 2018, the value of MNSE10, the blue-chip index of the Montenegro Stock Exchange (MNSE), averaged 802 points, down 7.3% y/y from 866 points in 2017.

MNSE's market capitalization went down by 2.3% q/q to EUR 3.045 bln at end-December 2018 in comparison to EUR 2.855 in December 2018.

The total turnover on the bourse increased to EUR 147.355 mln in 2018 from EUR 47.455 mln in the previous year.



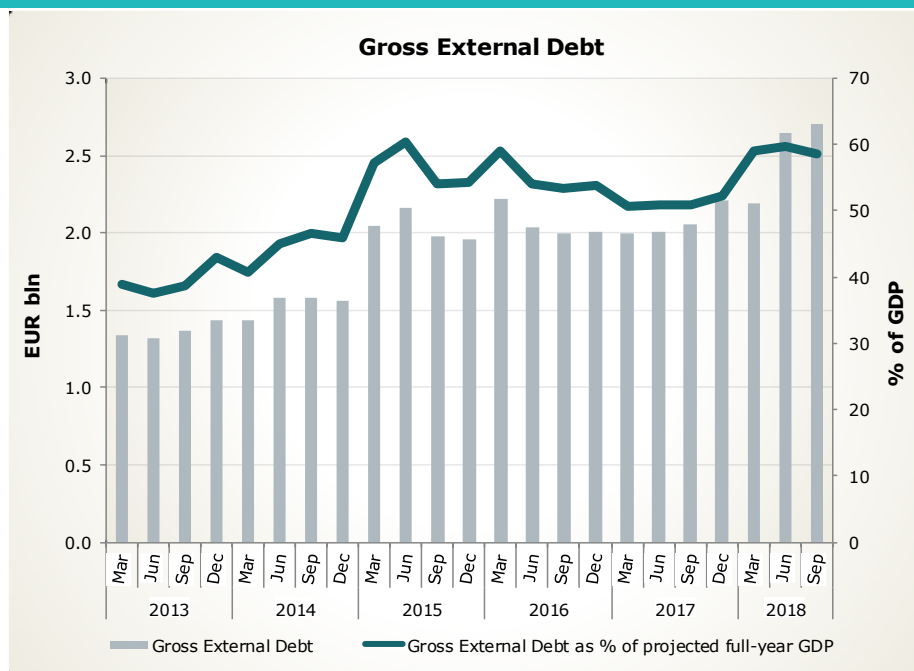
Source: MNSE

## 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

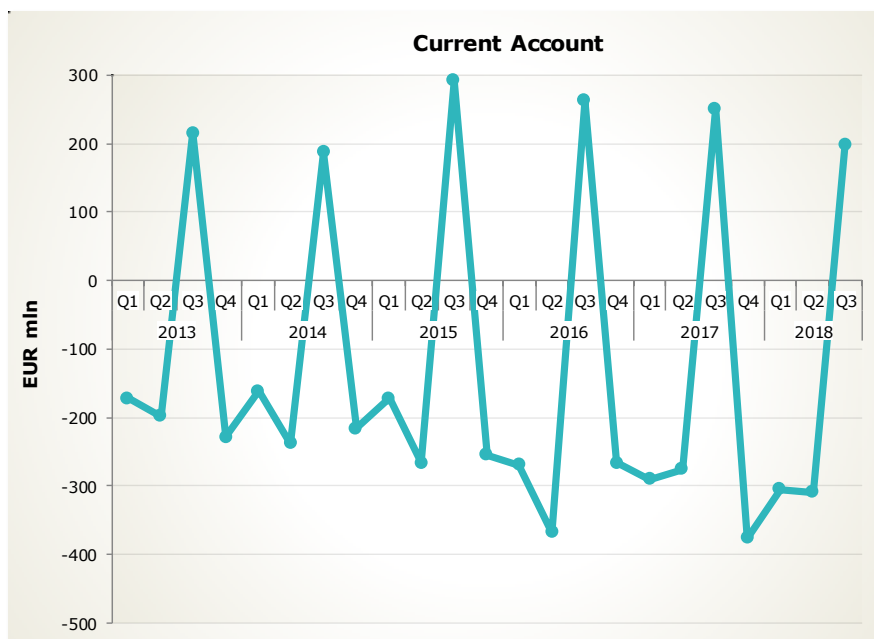
Editor's note: Data for Gross External Debt for Q4 2018 was not available at the time of preparation of this report.

## 7.2. BALANCE OF PAYMENTS

### Current account deficit at EUR 793.0 mln in 2018

The current account deficit expanded to EUR 793.0 mln in 2018 from EUR 691.2 mln in 2017, according to central bank statistics data.

Secondary income went up by 15.9% y/y to EUR 264.8 mln compared to EUR 228.4 mln in 2017.

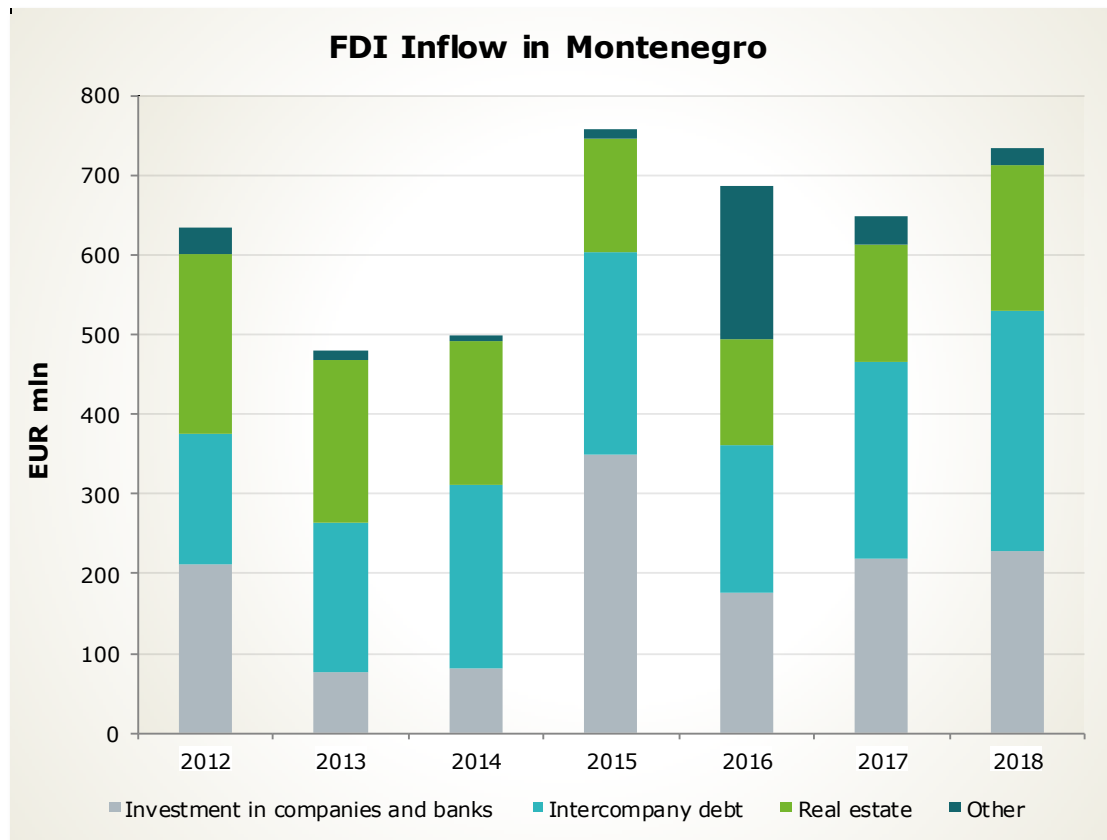


Source: CBCG

## 7.3. FDI

### Net FDI inflow at EUR 843.1 mln in 2018

During full-2018, net FDI in Montenegro amounted to EUR 843.1 mln, according to CBCG data. This is an increase from the net FDI inflow of EUR 649.2 mln in 2017.



Source: CBCG

## 7.4. FOREIGN TRADE

### Foreign trade deficit grew by 11.5% y/y in 2018

The trade deficit stood at EUR 2.154 bln in 2018, up 11.5% y/y, according to CBCG.

Exports increased by 7.8% y/y to EUR 400.0 mln, while imports went up by 10.9% y/y to EUR 2.554 bln. The coverage of imports by exports was 15.7%, higher compared to the coverage for 2017, of 10.9%.



Source: MONSTAT

## 7.5. TOURISM

### *Number of foreign tourist overnights increased by 8.8% y/y in 2018*

Tourist overnights of foreigners rose by an annual 8.8% to 3.8 million in 2018, according to MONSTAT. The number of foreign tourists grew even faster, at a rate of 13.7% y/y. The share of foreign visitors in total overnights in Montenegro remained very high, at 89.4%.





Source: MONSTAT

## 8. MAJOR DEVELOPMENTS

### **Montenegro awards land concession for solar energy project of Fortum, EPCG**

Dec 28, 2018

Montenegro's government said it approved a 30-year concession of two land plots in Ulcinj municipality for the construction of a photovoltaic (PV) plant by a consortium of Finland's Fortum and Montenegrin power utility EPCG [MNG:EPCG].

[Read the full story here](#)

### **Montenegro to borrow up to EUR 180 mln for motorway project in 2019**

Dec 21, 2018

Montenegro plans to borrow up to EUR 180 mln next year to finance the construction of the Bar-Boljare motorway, a government official said.

[Read the full story here](#)

### **Montenegro opens chapter on environment in EU accession talks**

Dec 11, 2018

Montenegro has opened one more chapter in its European Union accession talks, the government said.

[Read the full story here](#)

### ***EIB lending EUR 40 mln to Montenegro for road upgrades***

Nov 29, 2018

The European Investment Bank (EIB) has signed a EUR 40 mln loan deal with Montenegro's government for the rehabilitation and upgrading of five main roads, the lender said.

[Read the full story here](#)

### ***Albania's parl approves agreement with Montenegro to open new border crossing***

Nov 1, 2018

Albania's parliament said in November it approved an agreement with Montenegro to open a joint border crossing point that is expected to enhance economic links between the two EU candidate countries.

[Read the full story here](#)

### ***China CRBC to complete first section of Bar-Boljare motorway by end-2019***

Oct 15, 2018

China Road and Bridge Corporation (CRBC) will complete the construction of the first stretch of the Bar-Boljare motorway in Montenegro by the end of 2019, the chief supervisor of the project, Jovan Ivanovic, has said.

[Read the full story here](#)

### ***Montenegro expects EUR 250 mln agriculture investments in 4 years***

Oct 9, 2018

Montenegro expects investments of EUR 250 mln in its agriculture sector in the next four years, the country's Chamber of Commerce said.

[Read the full story here](#)

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