

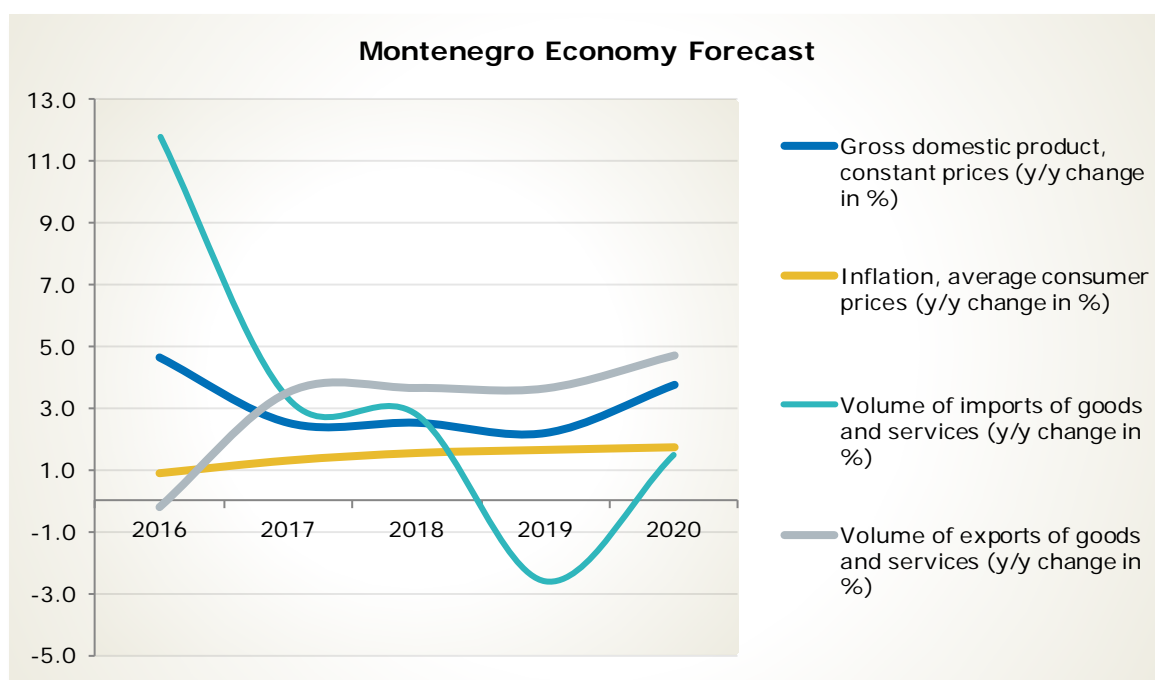
MONTENEGRO ECONOMY REPORT
2015

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1. MACROECONOMIC SNAPSHOT AND FORECAST

MONTENEGRO – MACROECONOMIC SNAPSHOT AS OF END-2015	
GDP Growth	3.2% y/y
Industrial output	7.9% y/y
Industrial sales	-2.2% y/y
Retail sales	2.2% y/y
Annual inflation	1.5%
Unemployment rate	17.6%
Number of building permits	-15.7% y/y
Household loans	3.0% y/y
MNSE10 blue-chip index	951 points (base = 1,000 points)
Gross External Debt	EUR 1.975 bln (as of Q3 2015)
Current account deficit	EUR 481.9 mln
FDI inflow	EUR 757.4 mln
Foreign trade deficit	EUR 1.523 bln
Number of foreign tourist overnights	19.9% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2016

2. REAL SECTOR

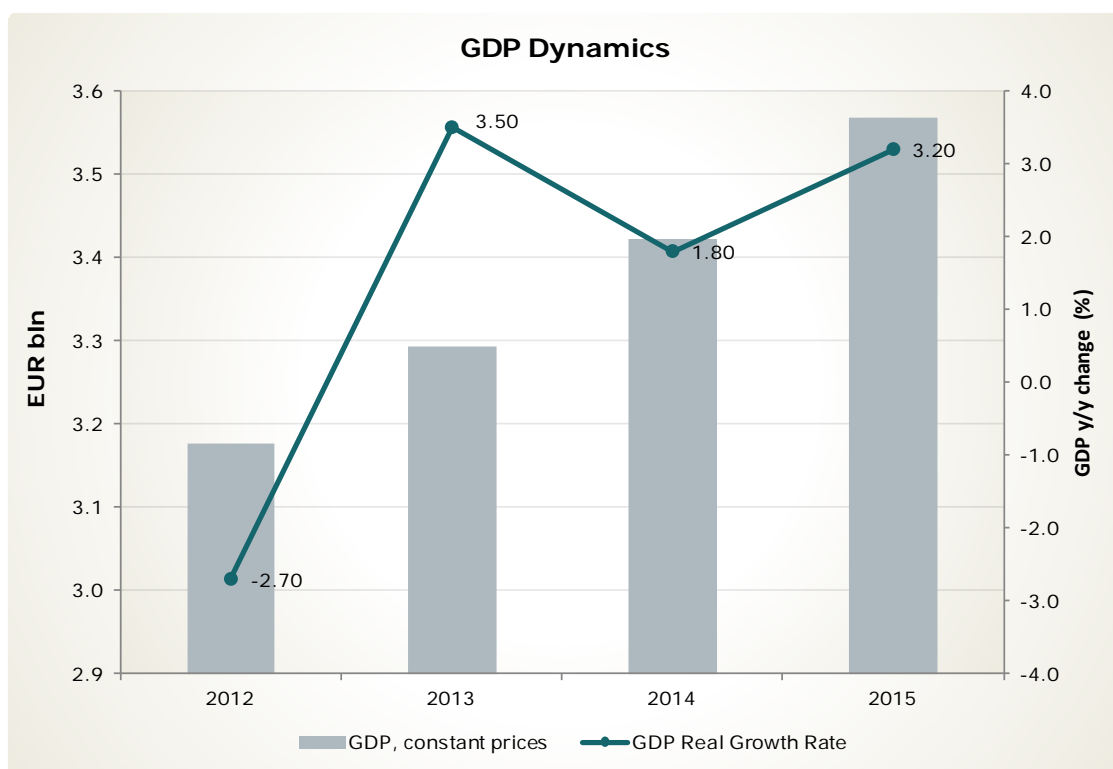
2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP annual growth accelerates to 3.2% y/y in 2015, compared to 1.8% a year ago

The country's real GDP annual growth was 3.2% in 2015, according to the Statistical Office of Montenegro (MONSTAT). The GDP totalled EUR 3.567 bln in constant prices in 2015, compared to EUR 3.422 bln in the previous year.

In Q4 2015 alone, Montenegro's annual GDP growth slowed down to 1.4% from 4.2% in the previous quarter. The GDP amounted to EUR 880.6 mln in Q4 2015, thus contributing 24.7% to the total annual GDP.

Final consumption increased in value terms by 0.6% on the year to EUR 3.485 bln in 2015, contributing 97.7% to the GDP. Gross capital formation went up by 9.8% to EUR 726.0 mln. Both exports and imports grew, by 10.9% and 6.6%, respectively.



Source: MONSTAT

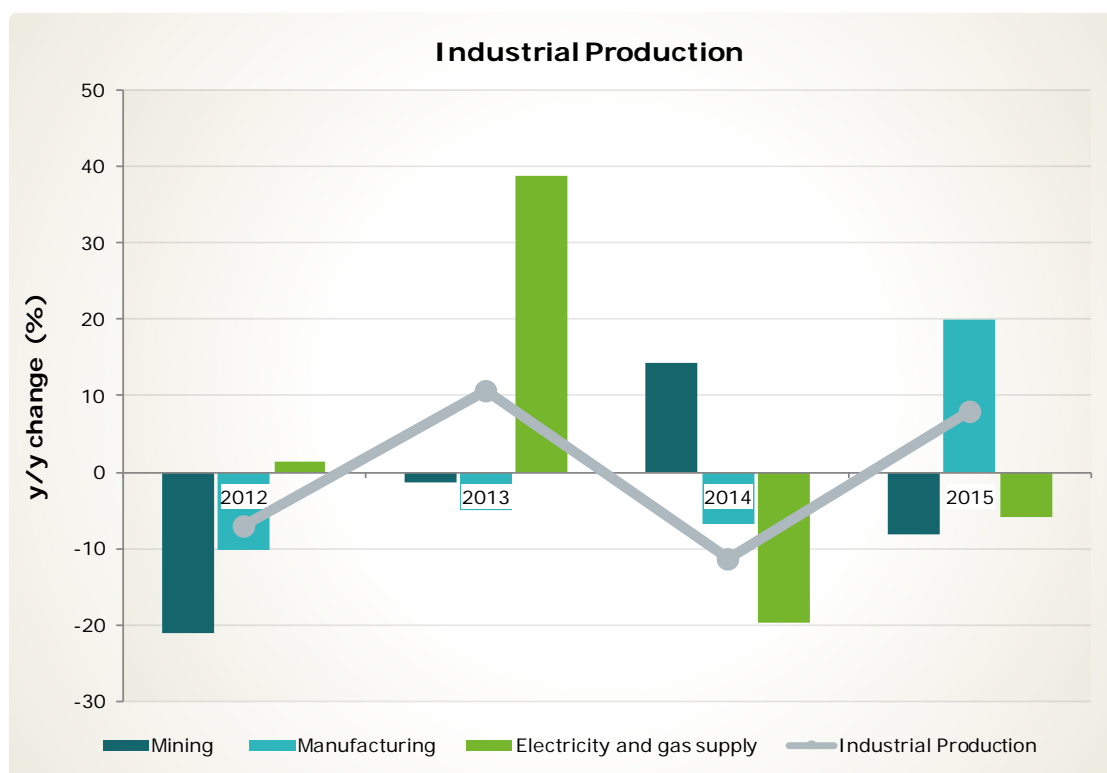
2.2. INDUSTRIAL OUTPUT

Industrial output up 7.9% y/y in 2015

Industrial output went up by 7.9% on the year in 2015, after an 11.4% annual drop in the previous year, according to MONSTAT.

The output of the manufacturing industry jumped by 19.9% on the year in 2015, while the output in the mining and quarrying sector fell by 8.1% and the electricity and gas supply sector registered an annual decrease of 5.9%.

Manufacture of rubber and plastic products, and manufacture of fabricated metal products fuelled the growth of the manufacturing industry by posting four-fold annual increases. In contrast, mining of metal ores registered the sharpest drop, of 67.4%.



Source: MONSTAT

2.3. INDUSTRIAL SALES

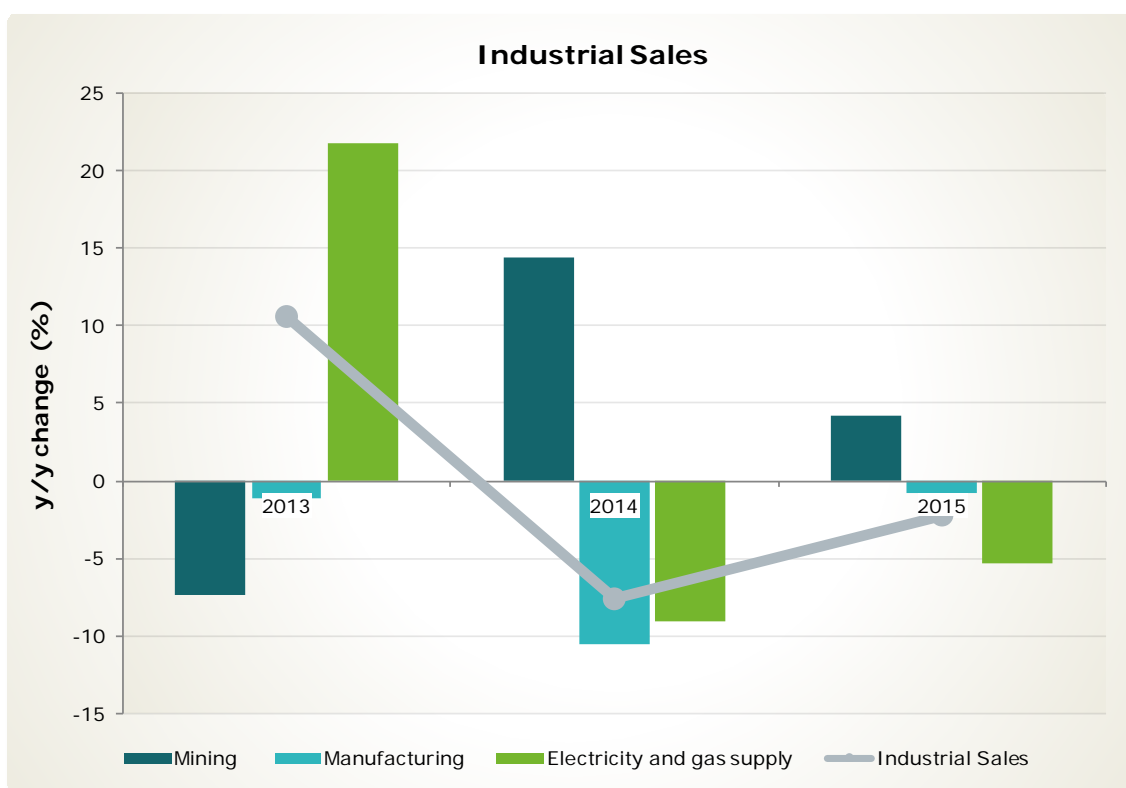
Industrial sales went down by 2.2% y/y in 2015

Industrial sales narrowed further in 2015, going down by an annual 2.2%, following the 7.60% annual drop in 2014, according to MONSTAT.

The 2015 downtrend was due to the 5.3% annual decline in the sales of the electricity and gas supply industry, and the 0.8% decrease in the sales of the manufacturing sector. The situation in the mining and quarrying sector was brighter with sales going up by 4.2%.

Segment wise, sales in the manufacture of rubber and plastic products marked a four-fold jump, thus occupying the first place in terms of annual growth, followed by manufacture of wood and of products of wood and cork with a 41.2% jump, and manufacture of basic metals with 31.0%.

The segments to report the highest annual fall in sales were mining of metal ores with a 67.4% drop, manufacture of tobacco products with 59.1% and repair and installation of machinery and equipment with 40.2%.



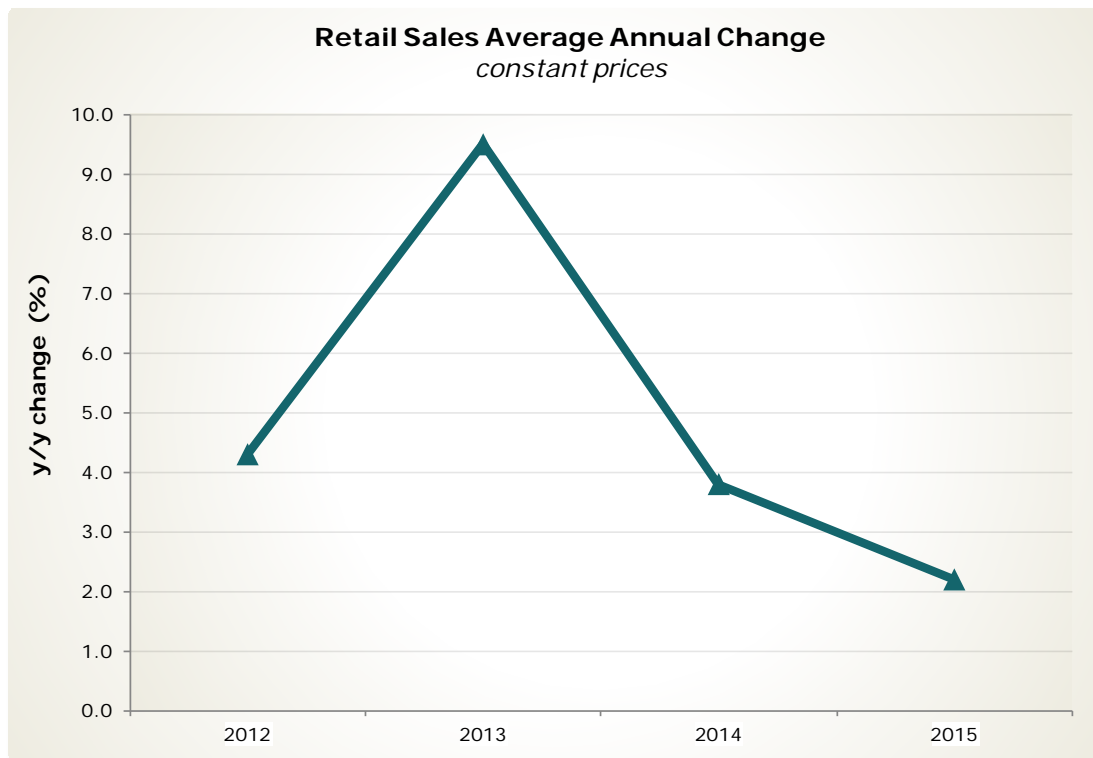
Source: MONSTAT

2.4. RETAIL SALES

Retail grew y/y in 2015

Retail sales went up by 2.2% in constant prices on the year in 2015, according to MONSTAT data.

Retail trade outside of stores and online retail trade led the ranking in terms of sharpest average annual increase with 26.8%, while retail trade of second hand goods in shops was on the opposite end with a drop of 9.9%.



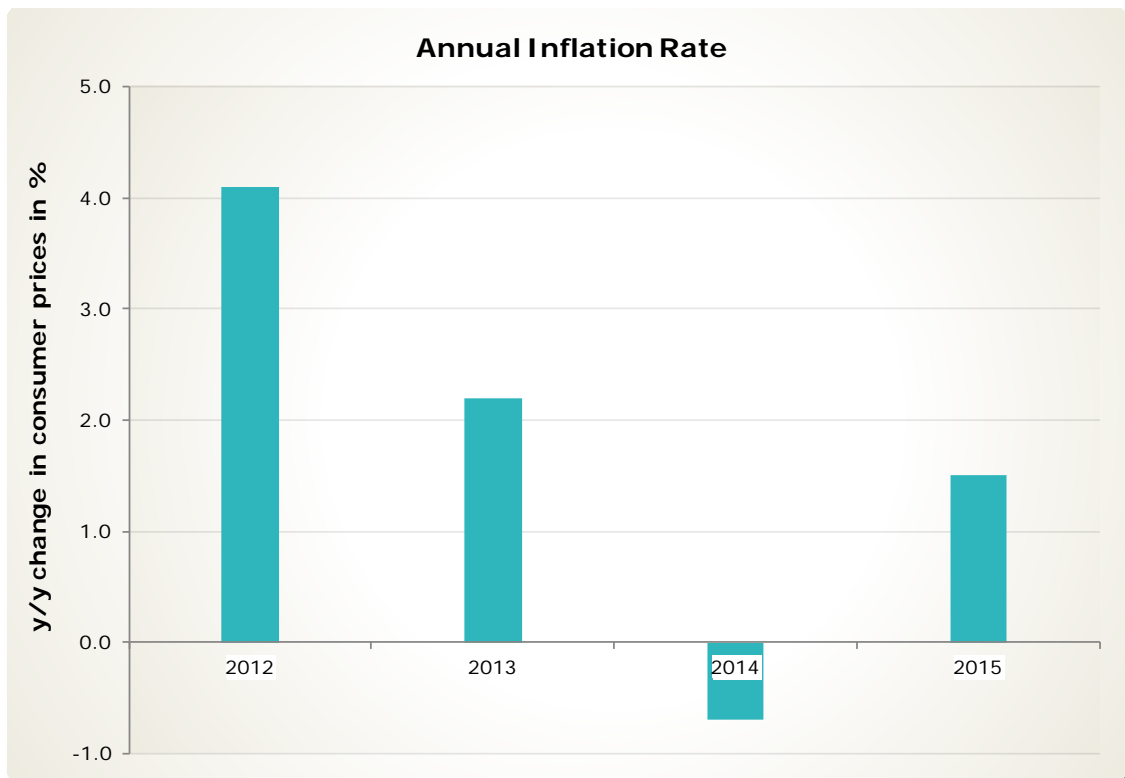
Source: MONSTAT

2.5. INFLATION

Annual inflation of 1.5% in 2015

Montenegro swung to an annual inflation of 1.5% in 2015 from a 0.70% deflation in the previous year, according to MONSTAT data.

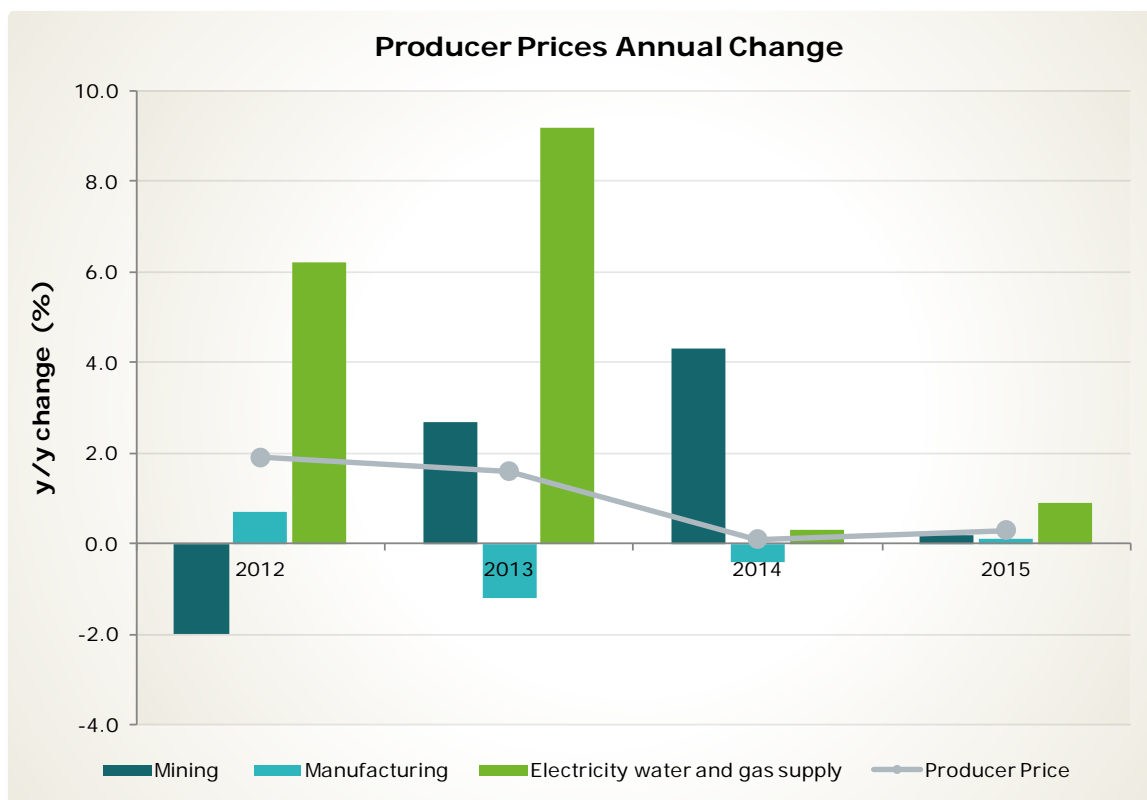
The highest annual increase in consumer prices, of 3.6%, was registered in clothing and footwear, while prices dropped the most, by 4.2%, in the transport services.



Source: MONSTAT

Producer prices inched up by 0.3% y/y in 2015 with all industries registering a growth – of between 0.1% for the manufacturing industry and 0.9% for the electricity, gas and water supply.

Segment wise, producer prices grew the most, by 5.7%, in the manufacture of other non-metal minerals sector, while the sharpest decline, of 1.2%, was in the mining of coal segment.



Source: MONSTAT

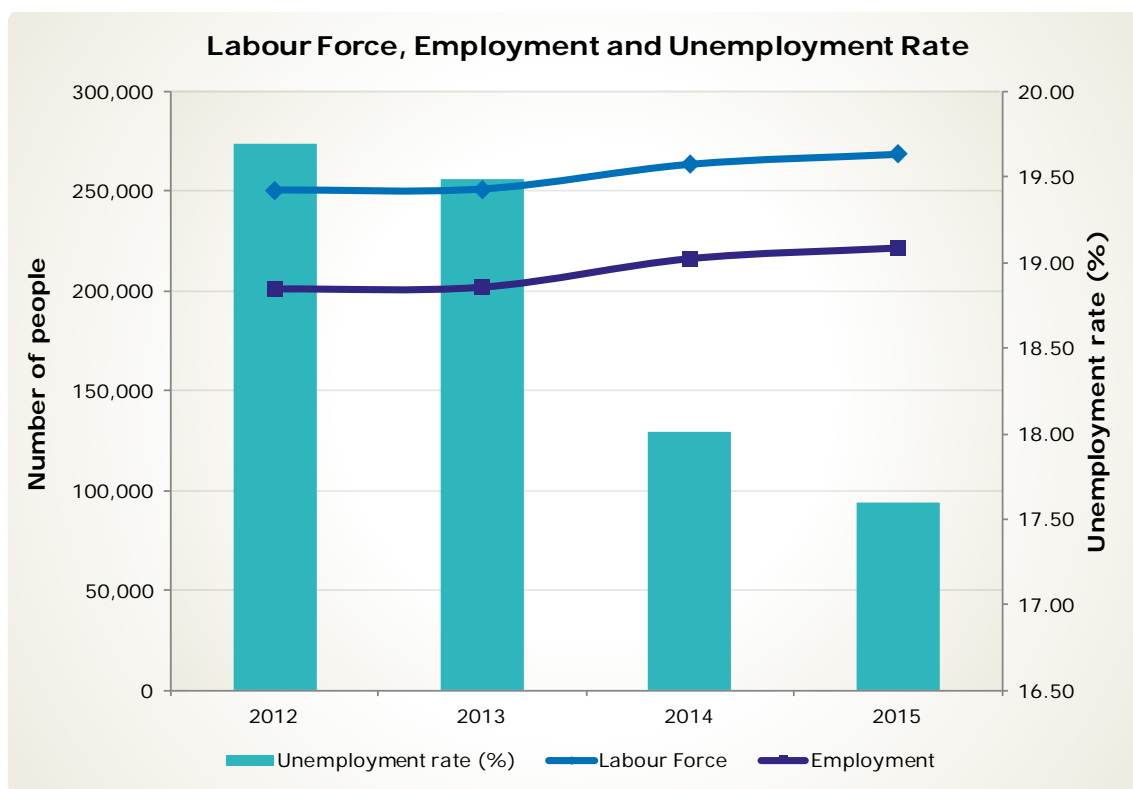
3. LABOUR MARKET

Unemployment rate at 17.6%, wages inch up 0.6% y/y in 2015

Unemployment in Montenegro narrowed to 17.6% of the total labour force in 2015 from 18.0% in 2014, according to data of MONSTAT.

The employed population aged 15 years and older was 221,700 people in 2015, up by 2.5% compared to 216,300 a year earlier.

Despite the overall unemployment rate reduction, the youth (population aged 15-24) unemployment rate went up to 37.7%, compared to 35.9%.



Source: MONSTAT

The average monthly net salary in 2015 inched up by 0.6% y/y to EUR 480, according to MONSTAT.

Employees in the financial and insurance activities had the highest average monthly net salaries, of EUR 897, followed by the electricity and air conditioning supply with EUR 850, and real estate activities with EUR 697.

The lowest wage, of EUR 333, was paid in the wholesale and retail trade, repair of motor vehicles and motor cycles sector. Administrative and support service activities followed with EUR 346 and the employed in the arts, entertainment and recreation earned the third lowest wages in the country, of EUR 385.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits fell by 15.7% y/y in 2015

The number of building permits issued in Montenegro in 2015 dropped by 15.7% y/y and totalled 773, according to MONSTAT data.

However, the number of dwellings, covered by the permits, increased by 1.6% to 2,993 but their total built-up area shrank to 204,038 sq m from 211,871 sq m.

The average dwelling price inched down to EUR 1,119 per sq m in 2015 from EUR 1,132 per sq m in 2014. Among the major cities, the average price was the highest – EUR 1,341 per sq m in coastal Budva, while the lowest average price, of EUR 583 per sq m, was registered in Niksic, western Montenegro.

The number of deals for dwellings rose by 9.5% to a total of 833 in 2015. More than 83.0% of the sold dwellings are located in Podgorica, the country’s capital.

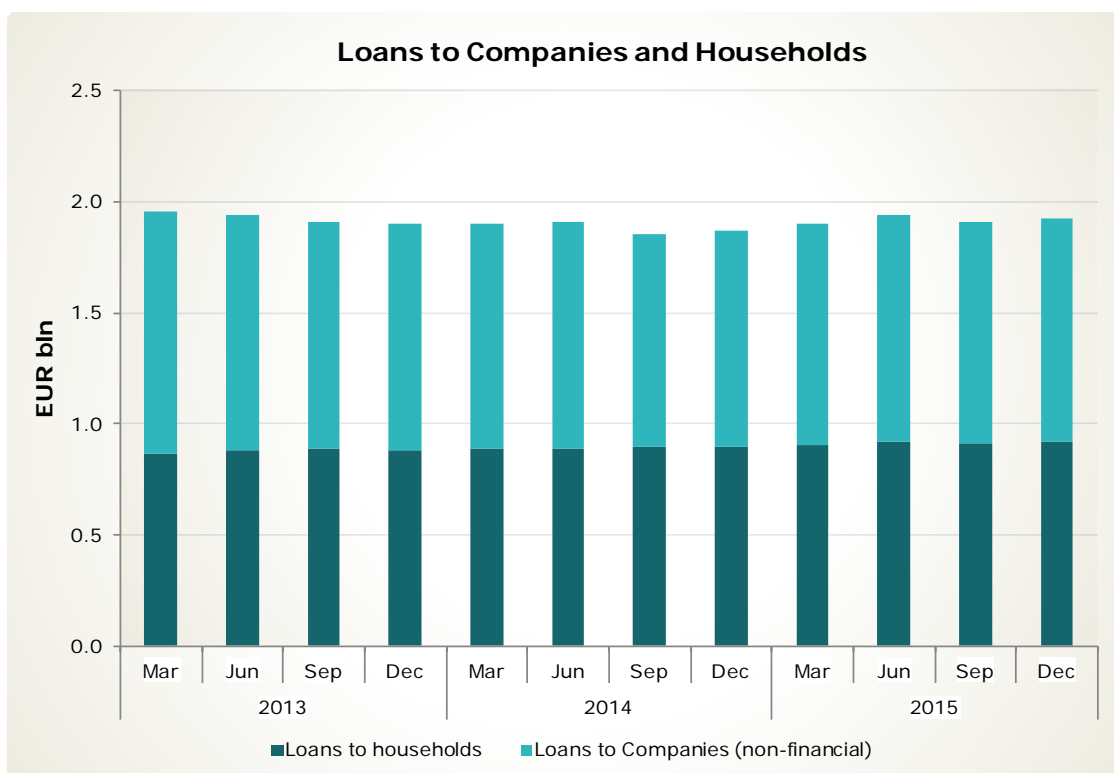
5. BANKING AND INSURANCE

Household loans increased by 3.0% y/y at end-2015

Loans to the non-government and non-financial sector totalled EUR 1.928 bln as of December 2015, up by 2.8% y/y, according to Central bank of Montenegro (CBCG).

Household loans grew by 3.0% to EUR 921.4 mln, accounting for 47.8 of the total loans to the non-government and non-financial sector, while corporate loans increased by 2.8% to EUR 1.003 bln, thus slicing a 52.0% share.

The total assets of the banking system reached EUR 6.085 bln in 2015 versus EUR 5.747 bln in 2014. Among the liabilities, the sum of deposits also grew – to EUR 2.625 bln from EUR 2.308 bln.

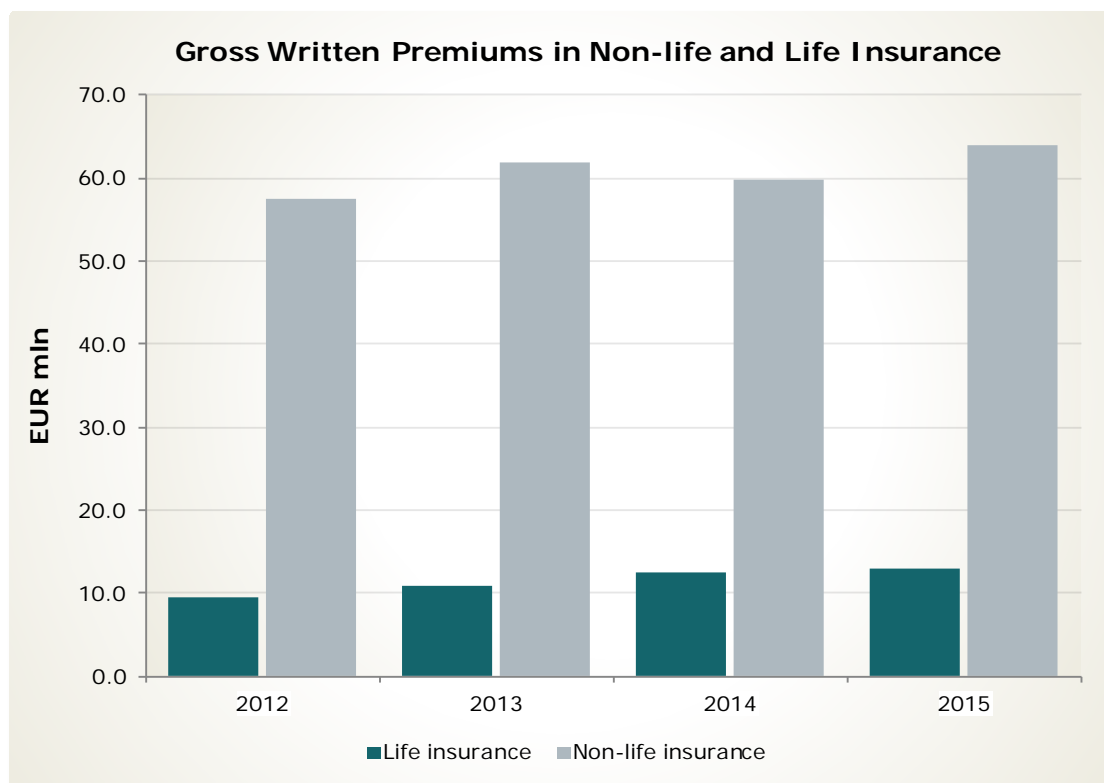


Source: CBCG

Insurance premiums went up 6.2% y/y in 2015

The total gross written premiums of the Montenegrin non-life and life insurance companies stood at EUR 76.934 mln, up by 6.2% y/y in 2015, according to the country's Insurance Supervision Agency (ANO).

The premiums of the non-life insurance market stood at EUR 64.008 mln, or by 6.9% more than in the previous year, while the life insurance sector grew by 2.9% to EUR 12.926 mln.



Source: ANO

6. CAPITAL MARKETS

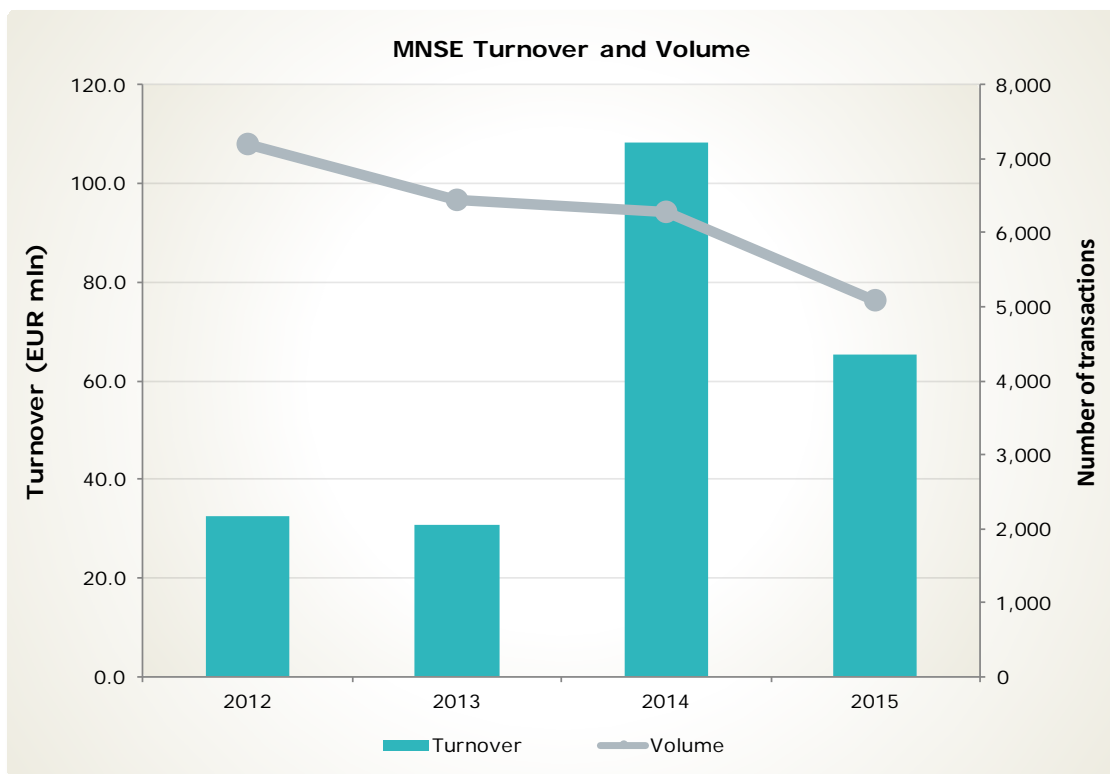
Blue-chip MNSE10* averaged 984 points in 2015

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

In 2015, the value of MNSE10, the blue-chip index of the Montenegro Stock Exchange (MNSE), averaged 984 points, compared to a base value of 1,000 points.

MNSE's market capitalization inched down by 0.7% y/y to EUR 2.981 bln at end-December 2015.

The total turnover on the bourse slumped to EUR 65.405 mln in 2015 from EUR 108.2 mln in the previous year.



Source: MNSE

7. EXTERNAL SECTOR

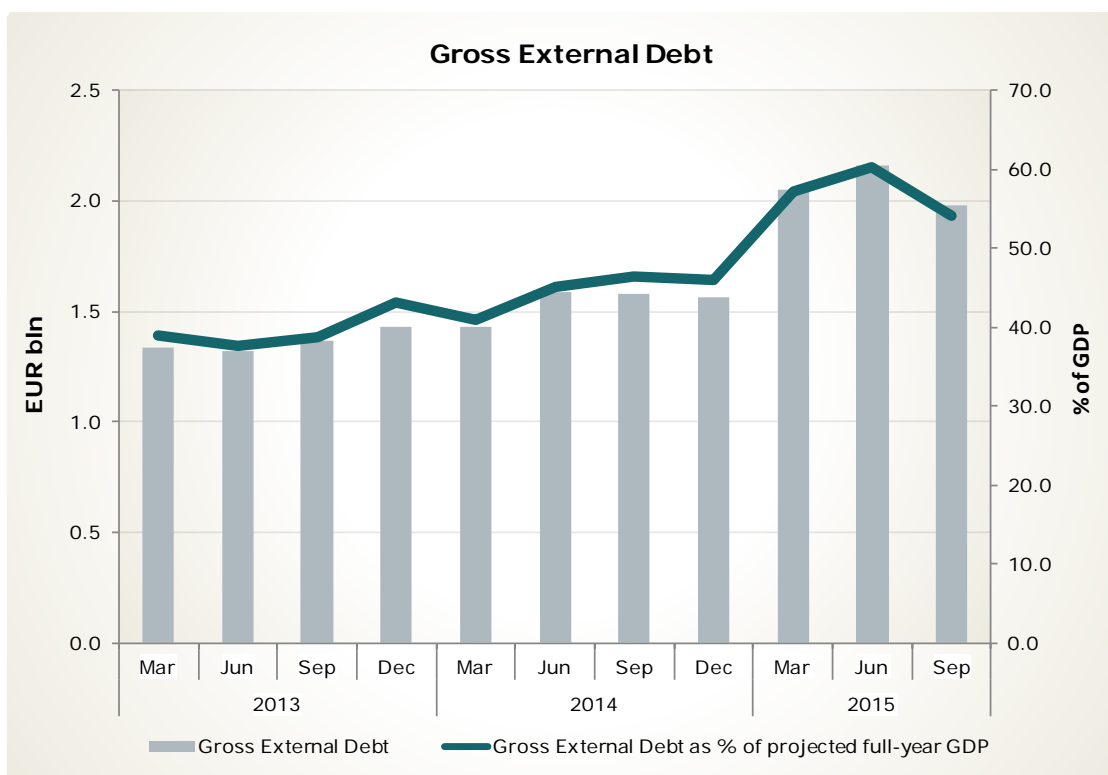
7.1. FOREIGN DEBT

The gross external debt grew annually to EUR 1.975 bln at end-September 2015*

**Data for end-December 2015 was not available as of the date of the preparation of the report*

The gross external debt increased to EUR 1.975 bln at the end of September 2015, up by 25.3% or EUR 0.399 bln, compared to a year earlier, according to CBCG. The gross external debt accounted for 54.0% of the projected full-year GDP.

The largest share, 48.9%, in the total gross external debt had Eurobonds, followed by debts to the International Bank for Reconstruction and Development, which made up 11.4% of the total and debts to the Chinese Exim Bank had a share of 8.5%.



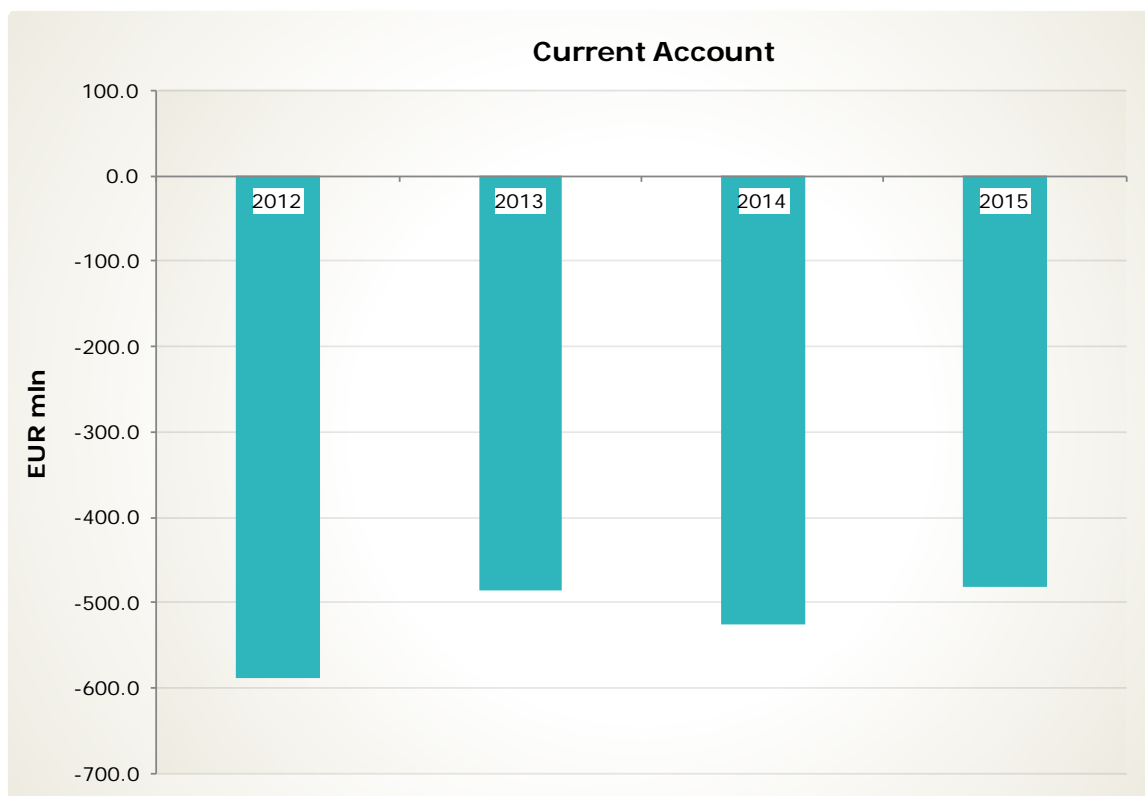
Source: CBCG

7.2. BALANCE OF PAYMENTS

Current account deficit at EUR 481.9 mln in 2015

The current account deficit shrank to EUR 481.9 mln in 2015 from EUR 525.8 mln in the previous year, according to central bank statistics data.

Secondary income went down to EUR 98.762 mln from EUR 114.4 mln, while primary income climbed to EUR 92.803 mln from EUR 45.901 mln.



Source: Central bank of Montenegro

7.3. FDI

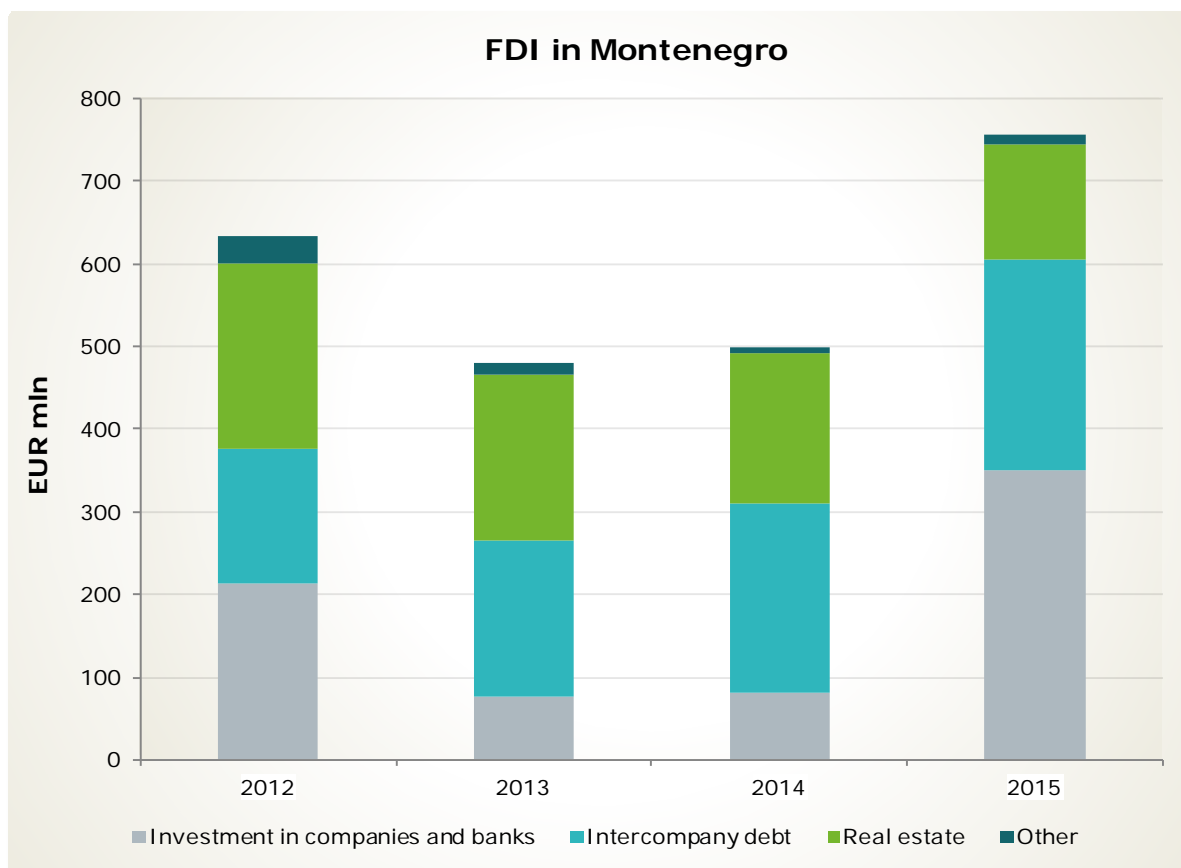
FDI inflow jumped 52.1% y/y in 2015

FDI went up by 52.1% annually, to EUR 757.4 mln, in 2015, according to CBCG data. The FDI inflow accounted for 21.2% of the country's GDP in 2015, up from 14.6% in 2014.

In the period under review, Austria was the biggest foreign investor in Montenegro with direct investments of EUR 263.7 mln, the Netherlands came second with EUR 71.168 mln and Russia came third with EUR 68.906 mln.

Inflow in the form of investments in companies and banks amounted to EUR 349.2 mln, up from EUR 80.353 mln in 2014, while investments in real estate dropped 22.0% to EUR 141.1 mln.

Inflow of FDI in the form of intercompany debt edged up to EUR 255.2 mln from EUR 230.3 mln in the previous year.



Source: CBCG

7.4. FOREIGN TRADE

Foreign trade deficit grew by 5.0% y/y in 2015

The trade deficit stood at EUR 1.523 bln in 2015, compared to EUR 1.451 bln in 2014, according to CBCG.

Montenegro's most exported goods in 2015 were non-ferrous metals – EUR 69.415 mln, followed by electricity – EUR 29.676 mln, and cork and wood – EUR 28.871 mln.

In term of imports, the leaders were petroleum, petroleum products and related materials – EUR 148.3 mln, road vehicles – EUR 115.4 mln, and meat and meat preparations – EUR 88.750 mln.

The country's main export markets in 2015 were Serbia, accounting for 22.1% of the total exports, followed by Italy with a 12.6% share and exports to Bosnia and Herzegovina made up 9.3% of the total.

Serbia, Bosnia and Herzegovina, and Italy were also Montenegro's main trading partners in terms of imports with shares in the total imports of 28.2%, 6.5%, and 6.4%, respectively.



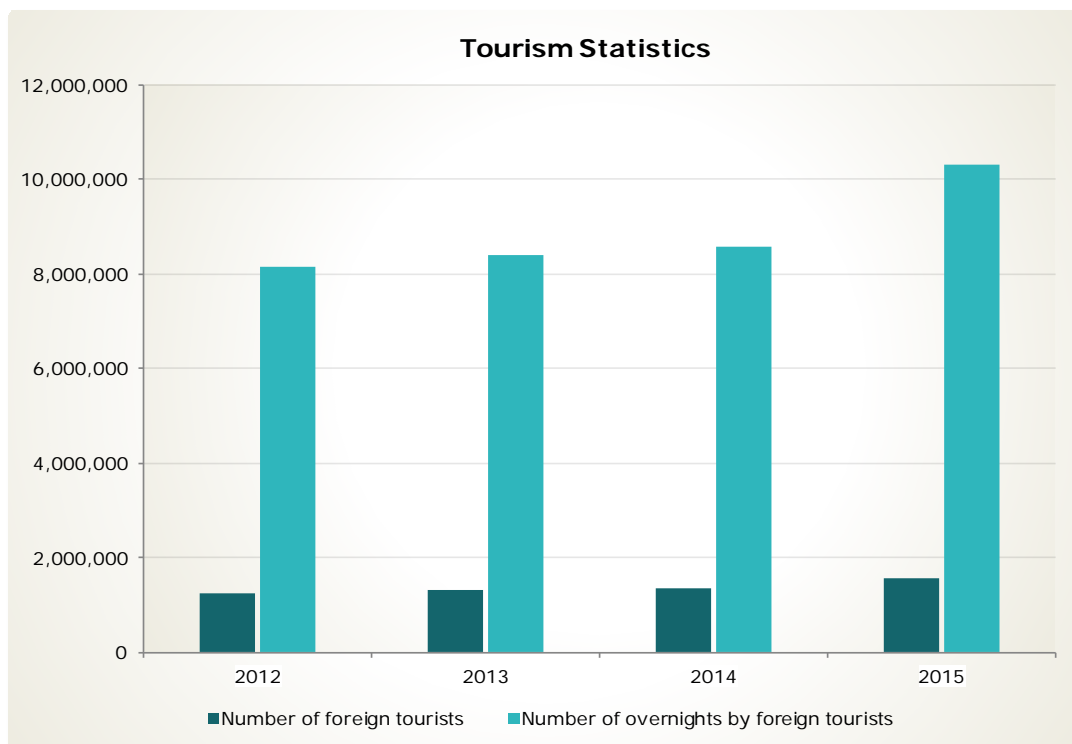
Source: MONSTAT

7.5. TOURSIM

Number of foreign tourist overnights grew by 19.9% y/y in 2015

Tourist overnights of foreigners jumped by an annual 19.9% to 10,307,371 in 2015, according to MONSTAT.

The number of foreign tourists also went up - by 15.5% y/y to 1,559,924. Serbian tourists accounted for 23.9% of the total number, followed by Russians with a 19.1% share, and tourists from Bosnia and Herzegovina with a 9.9% share.



Source: MONSTAT

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