# EXTERNAL SECTOR

07

In the period January - September 2021, the current account indicates a strong recovery of the Montenegro`s economy. According to preliminary data, the balance of payments recorded a decrease in the current account deficit (by 71,1% annually), which is largely the result of an increase in the surplus on the services account of 662.6 million euros or 493.9% due to tourism sector recovery. A further decline in the current account deficit was a result of an increase in the surplus in the primary and secondary income accounts by 34.7% and 52.1%, respectively. On the other hand, the recovery of the tourism sector and international trade flows resulted in an increase in the foreign trade deficit by 13.5%. The decrease in net capital inflow was recorded in the financial account, arising from the net outflows on other and portfolio investments accounts (Table 7.1).

In the observed period, the current account recorded a deficit in the amount of 249.2 million euros (a decrease of 71.1% annually) as a result of the recorded foreign trade deficit, which was partially mitigated by surpluses in other parts of the current account. The goods account deficit amounted to 1.4 billion euros or 13.5% more in relation to the corresponding period of the previous year. This is the result of an increase in total visible imports in the amount of 1.8 billion euros, which was 259.1 million euros or 17% higher than in the comparative period, mainly due to an increase in imports of oil and oil derivatives, and medicinal and pharmaceutical products. Total visible exports amounted to 371 million euros and was 91.1 million euros or 32.5% higher annually, mostly caused by the growth of electricity exports.

In the observed period, the services account ran a surplus of 796.8 million euros or 662.6 million euros more year-on-year, as a result of an increase in revenues of 148%. A significant increase in exports on this account (primarily caused by the increase in revenues from travel-tourism and transport services) followed by the increase in imports, resulted in an increase in the volume of invisible trade to 1.7 billion euros in the period January - September 2021 (an increase of 94.1% annually).

The surplus of 365.6 million euros was recorded on the primary and secondary income accounts, which is 47.7% more than in the same period of 2020. Primary income account ran a 84 million euros surplus, which is 34.7% more year-on-year. This trend is the result of larger inflow from compensations to employees. The secondary income account ran a surplus of 281.6 million euros, which is 52.1% more year-on-year. The inflow from remittances amounted to 527.4 million euros (an increase of 31.9%).

In the period January - September 2021, net FDI inflow amounted to 352.2 million euros, which is a year-on-year increase of 2%, and the current account deficit was fully covered by the net FDI inflow. Such trend is a result of higher inflow of FDIs arising from equity investments. In the reporting period, portfolio investments saw a net outflow of 396.5 million euros due to the principal repayment for Eurobonds issued in previous years. The other investments account recorded a net outflow of 294.8 million euros. Developments in this account are characterised by lower borrowing by the state, banks, and other sectors arising from foreign loans taken.

**Table 7.1**

| Balance of payments of Montenegro, January - September 2020/2021, in thousand euros[41] | | | | |
|---|---|---|---|---|
| No. | Item | January-September 2020 | January-September 2021 | Change in % |
| 1 | A. CURRENT ACCOUNT | -861,872 | -249,198 | -71.1 |
| 1.A | GOODS AND SERVICES BALANCE | -1,109,400 | -614,771 | -44.6 |
| 1.A.a | Goods | -1,243,559 | -1,411,545 | 13.5 |
| 1.A.a.1 | Exports f.o.b. | 279,892 | 370,996 | 32.5 |
| 1.A.a.2 | Imports f.o.b. | 1,523,451 | 1,782,541 | 17.0 |
| 1.A.b | Services | 134,160 | 796,773 | 493.9 |
| 1.A.b.1 | Income | 497,969 | 1,234,937 | 148.0 |
| 1.A.b.2 | Expenses | 363,809 | 438,164 | 20.4 |
| 1.B | Primary income | 62,365 | 84,014 | 34.7 |
| 1.B.1 | Income | 212,721 | 258,738 | 21.6 |
| 1.B.2 | Expenses | 150,356 | 174,724 | 16.2 |
| 1.C | Secondary income | 185,162 | 281,559 | 52.1 |
| 1.C.1 | Income | 246,654 | 341,204 | 38.3 |
| 1.C.2 | Expenses | 61,492 | 59,645 | -3.0 |
| 2 | CAPITAL ACCOUNT | 9 | -271 | |
| 2.A | Income | 11 | 0 | |
| 2.B | Expenses | 2 | 271 | |
| | CURRENT AND CAPITAL ACCOUNT BALANCE | -861,863 | -249,469 | -71.1 |
| 3 | FINANCIAL ACCOUNT, net | -728,303 | 77,279 | |
| 3.A | Financial assets net increase | -271,794 | 110,784 | |
| 3.B | Net increase in obligations | 456,509 | 33,505 | -92.7 |
| 3.1 | Direct investments, net | -345,436 | -352,229 | 2.0 |
| 3.1.1 | Financial assets net increase | -10,852 | 3,820 | |
| 3.1.2 | Net increase in obligations | 334,584 | 356,050 | 6.4 |
| 3.2 | Portfolio investments, net | 275,756 | 396,459 | 43.8 |
| 3.2.1 | Financial assets net increase | 10,975 | 47,740 | 335.0 |
| 3.2.2 | Net increase in obligations | -264,781 | -348,718 | 31.7 |
| 3.3 | Financial derivatives, net | 0 | 3,930 | |
| 3.3.1 | Financial assets net increase | 0 | 3,930 | |
| 3.3.2 | Net increase in obligations | 0 | 0 | |
| 3.4 | Other investments, net | -357,427 | 294,834 | |
| 3.4.1 | Financial assets net increase | 29,278 | 321,007 | 996.4 |
| 3.4.2 | Net increase in obligations | 386,706 | 26,174 | -93.2 |
| 3.5 | CBCG reserves (change) | -301,195 | -265,714 | -11.8 |
| 4 | NET ERRORS AND OMISSIONS (3-2-1) | 133,560 | 326,747 | |

Note: Due to rounding up digits, individual sums will not be equal to the sum of individual items
Source: CBCG

[41] Montenegro's balance of payments' data are published in accordance with the new IMF methodology (2009 IMF Balance of Payment and International Investment Position Manual, Sixth Edition - BMP 6).

# 7.1. Balance of Payments

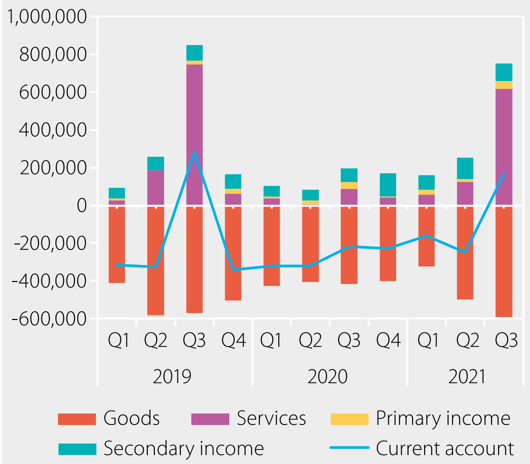
## 7.1.1. Current and capital accounts

From January to September 2021, the current account deficit is the result of a deficit on the goods account, while a surplus was recorded on other accounts (Graph 7.1). The recorded foreign trade deficit of 1.4 billion euros, followed by an increase in the surplus on the services account, resulted in an decrease in the deficit in the exchange of goods and services of 44.6% in relation to the same period of the previous year. The coverage of imports by visible and invisible exports amounted to 72.3%, recording the year-on-year increase of 31.1 pp.

In the observed period, the recorded surplus on services account was 796.8 million euros or approximately six times higher than in the corresponding period, which is largely the result of lower base from the aforementioned period as well as the increase of revenues from travel-tourism and transport services. The decline in the current account deficit was further stimulated by an increase in the surplus on primary and secondary income accounts of 47.7% compared to the corresponding period.

**Graph 7.1**

**Quarterly current account structure in Montenegro, Q1 2019 - Q3 2021, in thousand euros**



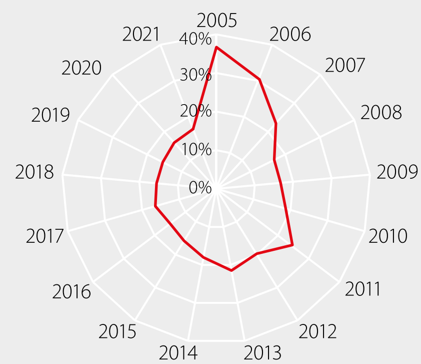

Source: CBCG

### 7.1.1.1 Visible trade[42]

According to preliminary Monstat data, during the period January - September 2021, the total international visible trade recorded an increase of 17.1% compared to the corresponding period of the previous year, as a result of simultaneous visible imports and exports increase. Owing to the mentioned growth of imports (by 263.4 million euros or 16.8%) and exports (by 47.5 million euros or 18.7%), the coverage of visible imports by visible exports in Q3 2021 remained at approximately the same level in relation to the recorded coverage in the corresponding period of the previous year (growth of 0.3 pp) and stood at 16.5%.

**Graph 7.2**

**Coverage of visible imports by visible exports in the balance of payments in Montenegro, January 2005 - September 2021, in %**




Source: Monstat and CBCG calculations

[42] Methodological remarks: Data on foreign trade and balance of payment of Montenegro are shown according to the special trading system. The CBCG performs adjustments of data received from Monstat for the purposes of compiling the balance of payments in line with the IMF methodology (Balance of Payments Manual, Sixth edition, IMF, 2009). Data on visible imports and exports are presented by f.o.b. The adjustments made by the CBCG are the reason for the differences in the data shown in Table 7.1 and the data analysed in this chapter.

External Sector

Preliminary Monstat data show that the total visible exports amounted to 302.1 million euros from January to September 2021. Observed by the SITC[43] categories, the increase in total exports was mostly influenced by the exports of *mineral fuels and lubricants* in the amount of 61.5 million euros, being 24.2 million euros or 65.1% higher y-o-y. This is a result of an increase in exports in the subcategory *electricity*, where the recorded value of exported goods amounted to 50.6 million euros, which is an increase of 20.2 million euros or 66.4% compared to the same period of the previous year.

According to SITC, in the structure of exports, most products are exported in the category *raw materials, except fuels*, which accounted for 69.3 million euros or 22.9% of total exports. The largest share in this value consists of *metalliferous ores and metal scrap*, which was exported in the amount of 40.4 million euros (growth of 17.9%), and *cork and wood*, with exports of 24 million euros (growth of 15.4). A significant share in exports (21.3%) is also recorded in the category *Products classified by materials*, whose exports amounted to 64.4 million euros, which is an increase of 11.4% compared to the period January - September 2020. In this category, *non-ferrous metals* accounted for the main share with exports amounting to 49.3 million euros (up 17.7%), followed by *iron and steel* with exports of 6.2 million euros (down 37.6%). The next category, according to the share in exports (20.4%) is the category of *mineral fuels and lubricants*.

**Table 7.2**

**Structure of visible exports in Montenegro, January - September 2020/2021, in thousand euros**

| | | | | Share | | Change | Nominal difference |
|---|---|---|---|---|---|---|---|
| | | Jan-Sep 2020 | Jan-Sep 2021 | Jan-Sep 2020 | Jan-Sep 2021 | Jan-Sep 2021 / Jan-Sep 2020, in % | Jan-Sep 2021 / Jan-Sep 2020 (in thousand euros) |
| 0 | Food and live animals | 19,670.5 | 22,900.7 | 7.7% | 7.6% | 16.4% | 3,230.2 |
| 1 | Beverages and tobacco | 10,493.2 | 14,492.5 | 4.1% | 4.8% | 38.1% | 3,999.3 |
| 2 | Raw materials, except fuels | 58,418.8 | 69,303.0 | 22.9% | 22.9% | 18.6% | 10,884.2 |
| 3 | Mineral fuels and lubricants | 37,257.1 | 61,501.9 | 14.6% | 20.4% | 65.1% | 24,244.9 |
| 4 | Animal and vegetable oils and fats | 371.8 | 616.3 | 0.1% | 0.2% | 65.8% | 244.5 |
| 5 | Chemical products | 20,842.4 | 23,714.6 | 8.2% | 7.9% | 13.8% | 2,872.3 |
| 6 | Products classified by materials | 57,858.3 | 64,448.9 | 22.7% | 21.3% | 11.4% | 6,590.6 |
| 7 | Machinery and transport equipment | 25,349.2 | 32,437.2 | 10.0% | 10.7% | 28.0% | 7,088.0 |
| 8 | Miscellaneous manufactured articles | 16,292.1 | 12,655.6 | 6.4% | 4.2% | -22.3% | -3,636.5 |
| 9 | Products and transactions, otherwise not mentioned | 8,000.0 | 0,0 | 3.1% | 0.0% | | -8,000.0 |
| | TOTAL: | **254,553.3** | **302,070.7** | **100%** | **100%** | **18.7%** | **47,517.4** |

Note: Due to rounding up digits, individual sums will not be equal to the sum of individual items.
Source: Monstat and CBCG calculations

Total visible imports amounted to 1.8 billion euros in the period January - September 2021. The increase in imports compared to the corresponding period of the previous year and observed by SITC categories was mostly influenced by the increase in imports in the category *mineral fuels and lubricants* in the amount of 205.5 million euros or 79.9 million euros higher (increase of 63.6%). This increase is a result of the growth in imports in the subcategory *oil and oil derivatives* whose imports

[43] Standard International Trade Classification.

amounted to 141.1 million euros and increased by 54.4 million euros (62.8%) compared to the same period of the previous year. Further growth in imports in this category was also influenced by the subcategory *electricity* with imports of 51.8 million euros (increase of 18.9 million euros or 57.4%).

Significant growth was also recorded in the category *food and live animals* (increase of 60.3 million or 20.6%), as well as in the category *chemical products* (increase of 40 million or 19.9%), where *medicinal and pharmaceutical products* worth 112 million euros were imported (growth of 25.6 million euros or 29.7%).

According to SITC, *machinery and transport equipment* had a dominant share in the structure of imports (20.6%), with imports amounting to 376.3 million euros. The highest value of imports under machinery and transport equipment was in *road vehicles* amounting to 106.4 million euros as well as in *electrical machinery, apparatus and appliances* in the amount of 77 million euros. The second largest share in the structure of visible imports were products of the sector *food and live animals* (19.3%), which were imported in the amount of 352.5 million euros. Under this category, the most representing ones include: *meat and meat preparations* and *vegetables and fruits* with the respective amounts of 70.9 million euros and 55 million euros. *Products classified by materials* (16%), which include non-metal mineral products (mostly cement) and manufactures of metals (with structures, parts of structures, and fittings of iron and steel as prevailing) have a significant share in the imports structure.

**Table 7.3**

**Structure of visible imports in Montenegro, January - September 2020/2021, in thousand euros**

| | | | | Share | | Change | Nominal difference |
|---|---|---|---|---|---|---|---|
| | | Jan-Sep 2020 | Jan-Sep 2021 | Jan-Sep 2020 | Jan-Sep 2021 | Jan-Sep 2021 / Jan-Sep 2020, in % | Jan-Sep 2021 / Jan-Sep 2020 (in thousand euros) |
| 0 | Food and live animals | 292,191.9 | 352,513.6 | 18.7% | 19.3% | 20.6% | 60,321.7 |
| 1 | Beverages and tobacco | 46,180.6 | 70,024.8 | 3.0% | 3.8% | 51.6% | 23,844.2 |
| 2 | Raw materials, except fuels | 30,969.7 | 35,359.1 | 2.0% | 1.9% | 14.2% | 4,389.4 |
| 3 | Mineral fuels and lubricants | 125,574.1 | 205,473.2 | 8.0% | 11.2% | 63.6% | 79,899.1 |
| 4 | Animal and vegetable oils and fats | 9,063.6 | 12,395.0 | 0.6% | 0.7% | 36.8% | 3,331.4 |
| 5 | Chemical products | 200,643.8 | 240,668.5 | 12.8% | 13.2% | 19.9% | 40,024.7 |
| 6 | Products classified by materials | 277,543.1 | 292,614.8 | 17.7% | 16.0% | 5.4% | 15,071.7 |
| 7 | Machinery and transport equipment | 362,083.1 | 376,321.2 | 23.1% | 20.6% | 3.9% | 14,238.1 |
| 8 | Miscellaneous manufactured articles | 216,528.1 | 242,625.3 | 13.8% | 13.3% | 12.1% | 26,097.2 |
| 9 | Products and transactions, otherwise not mentioned | 3,936.9 | 82.3 | 0.3% | 0.0% | -97.9% | -3,854.6 |
| | TOTAL: | **1,564,714.9** | **1,828,077.8** | **100%** | **100%** | **16.8%** | **263,362.9** |

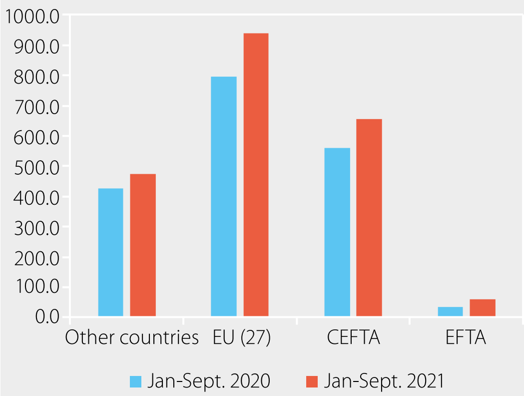
Note: Due to rounding up digits, individual sums will not be equal to the sum of individual items.
Source: Monstat and CBCG calculations

Regarding the exports by regions in the period January-September 2021, the main foreign trade partners of Montenegro were the CEFTA[44] countries with 44.3% goods exported, most of which is electricity. It is followed by the EU countries with a share of 34.5% to which the most exports included

[44] The Central European Free Trade Agreement (CEFTA) is a trade agreement between Albania, Bosnia and Herzegovina, the Republic of North Macedonia, Moldova, Serbia, the Republic of Kosovo and Montenegro.

**Graph 7.3**

**Visible trade in Montenegro by regions, January - September 2020/2021, in million euros**




Source: Monstat

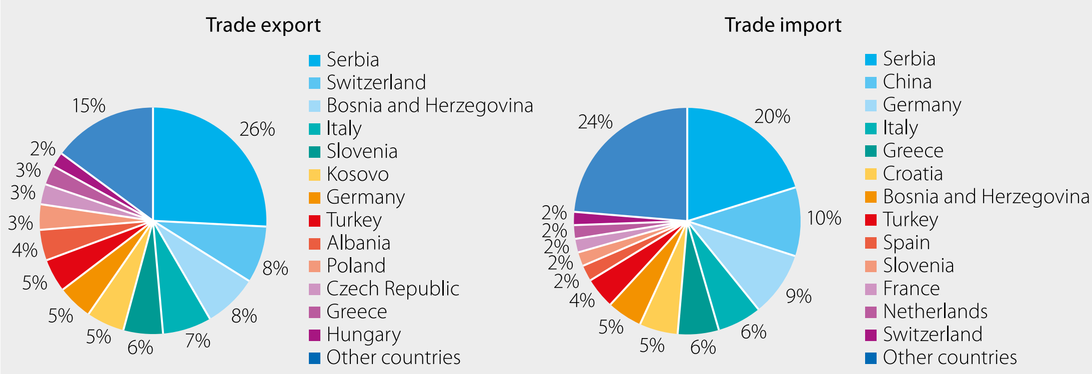
aluminium and electricity, the EFTA countries[45] (8.1%) and other countries (13.1%).

Most goods were imported from the EU (45.8%), and from CEFTA and EFTA countries (28.5% and 2%, respectively). Some 23.8% is imported from other countries (Graph 7.3). If the structure of imports is observed, oil and oil derivatives, as well as road vehicles were the most imported from the EU, whereas electricity, water and live animals were most imported from the CEFTA countries.

Observed by individual countries, the largest export partners were: Serbia (78 million euros), Switzerland (24.5 million euros) and Bosnia and Herzegovina (23.3 million euros). In terms of imports, most goods were imported from Serbia (368.9 million euros), followed by China (179.2 million euros) and Germany (168.4 million euros).

**Graph 7.4**

**Visible exports and imports structure in Montenegro, January - September 2021, by countries, in %**




Source: Monstat and CBCG calculations

## 7.1.1.2. Services

From January to September 2021, Montenegro recorded a surplus in the amount of 796.8 million euros in international invisible trade, which is 662.6 million euros more y-o-y. The surplus on this account was recorded owing to an increase in revenues. The total volume of invisible trade in this period reached 1.7 billion euros or 94.1% more year-on-year.

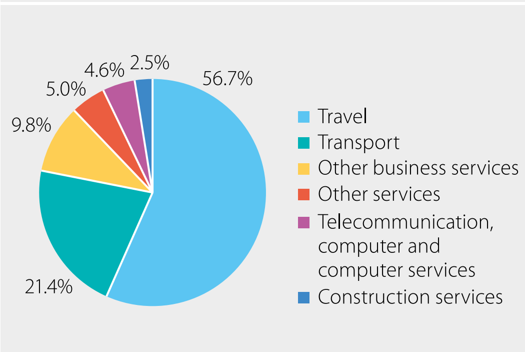
[45] The European Free Trade Association (EFTA) is an international governmental organisation consisted of Iceland, Liechtenstein, Norway and Switzerland.

Total revenues from services amounted to 1.2 billion euros, recording a year-on-year increase of 148%. With 699.7 million euros, travel-tourism recorded the highest revenues, followed by transport with 264.8 million euros, other business services with 120.5 million euros, and telecommunication, computer and information services with 57.1 million euros (Graph 7.5).

In the reporting period, expenses for services stood at 438.2 million euros, or 20.4% higher compared y-o-y. Expenditures for transport in the amount of 197 million euros had the largest share in the structure of expenditures, followed by expenditures arising from other business services, which amounted to 105.5 million euros (Graph 7.6). Under these services, the highest expenditures arose from professional and consulting services which added up to 72.8 million euros, as well as from technical, trade and other business services in the amount of 26.8 million euros.

**Graph 7.5**

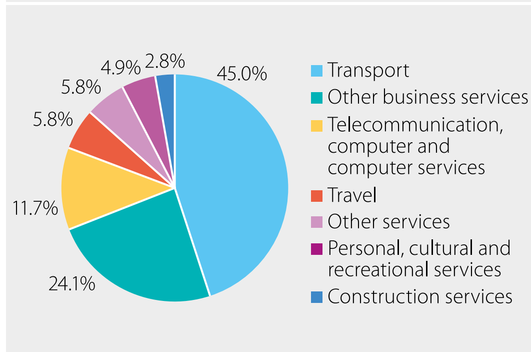
**Revenues from services structure in the balance of payments of Montenegro, January-September 2021, in %**




Source: CBCG

**Graph 7.6**

**Structure of expenses for services in the balance of payments in Montenegro, January-September 2021, in %**

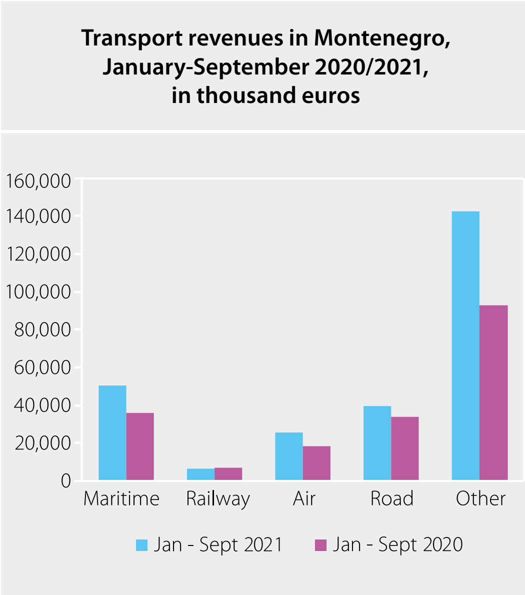



Source: CBCG

In the period January-September 2021 the transport services account recorded a surplus in the amount of 67.7 million euros, which is 44.8 million euros more year-on-year. Owing to the recovery of the economy from the crisis caused by the COVID-19 pandemic, as well as the growth of transport costs, an increase in revenues from all key categories of transport services was recorded.

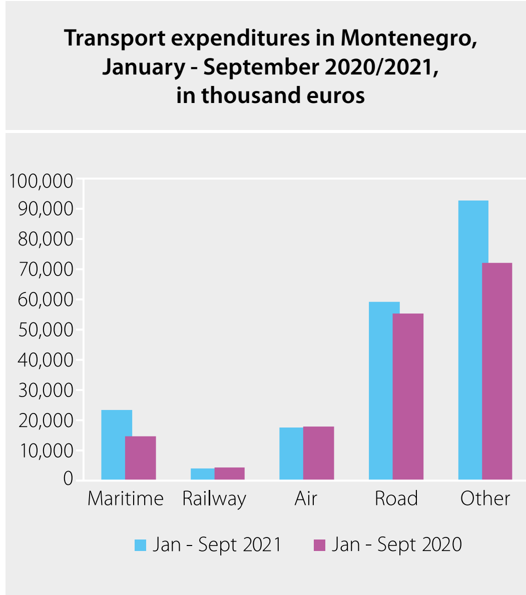
Transport revenues amounted to 264.8 million euros, recording an increase of 41.2%. The largest share of 36.3% in the total revenues on the transport services account was recorded by revenues from electricity transmission, which amounted to 96.2 million euros or 47.4% more compared to the corresponding period of the previous year (Graph 7.7). In the structure of these revenues, maritime transport accounted for 19.1%, road transport made up 15%, while air transport accounted for 9.6% of total revenues. Maritime transport revenues amounted to 50.6 million euros, recording an annual increase of 40.3%. Revenues from road transport amounted to 39.7 million euros (an increase of 18%). Revenues generated from air transport amounted to 25.5 million euros, which is a year-on-year increase of 38.7% as a result of the increase in other revenues from air transport. Revenues from railway transport amounted to 6.5 million euros, which is 4% less than in the corresponding period. Revenues generated from assistance, support and other transport services amounted to 44.8 million euros (70.9% more y-o-y), which is a result of higher revenues from crew rental services and freight forwarding services.

**Graph 7.7**




Source: CBCG

**Graph 7.8**




Source: CBCG

Total transport expenditures amounted to 197 million euros, recording the year-on-year increase of 32.5 million euros or 19.7%. Electric power transmission as well as road transport recorded the most significant expenditures and they account for 31.4% and 30.1% of total expenditures, respectively. Electric power transmission expenditures amounted to 61.9 million euros, which is 18.9% more than in the same period in 2020, and were partly a result of rising electricity prices on the international market. Road transport expenditures reached 59.3 million euros, which is 7% more y-o-y. Maritime transport expenditures amounted to 23.5 million euros (a 60.4% increase), while air transport expenditures declined 3.2% year-on-year, amounting to 17.5 million euros. The railway transport expenditures amounted to 4.2 million euros or 5.1% less y-o-y. Expenditures generated from assistance, support and other transport services amounted to 28.5 million euros, which is 51.5% more y-o-y.

When all types of transport are taken into account, the largest invisible trade, imports and exports was recorded in freight transport, 134.7 million euros and 145.8 million euros, respectively.

In the period January - September 2021, the estimated revenues from *travel-tourism* amounted to 699.7 million euros and they were 473.5% higher y-o-y. As a result of the successful tourist season in Q3 2021, despite the epidemiological situation, the number of arrivals and overnights of foreign tourists increased, which resulted in significantly higher revenues, compared to the same period of the previous year. Moreover, the recorded revenues in 2021 make up 68.9% of the revenues recorded in the corresponding period of 2019.

Expenditures from travel-tourism amounted to 25.6 million euros and they were 24.4% higher y-o-y. These developments led to a surplus in the travel-tourism account of 674.1 million euros, being 564.6% more than in the same period in 2020.

In the observed period, the *construction services* account recorded total revenues in the amount of 31.3 million euros, which is the year-on-year increase of 27.1%. At the same time, the expenditures arising from hiring non-residents in construction amounted to 12.1 million euros, which is the year-on-year decrease of 10.2%. Such development in revenues and expenditures in the construction services account resulted in a surplus of 19.1 million euros, which is 72.6% more than in the corresponding period of the previous year.

Revenues from *other business services* amounted to 120.5 million euros, with the main share of revenues arising from providing various business, professional and consulting services in the amount of 93.7 million euros. Expenditures from other business services amounted to 105.5 million euros. The increase in revenues from other business services of 40.9%, with a simultaneous increase in expenditures of 20.3%, led to a surplus of 14.9 million euros, while in the same period of the previous year this account recorded a deficit.

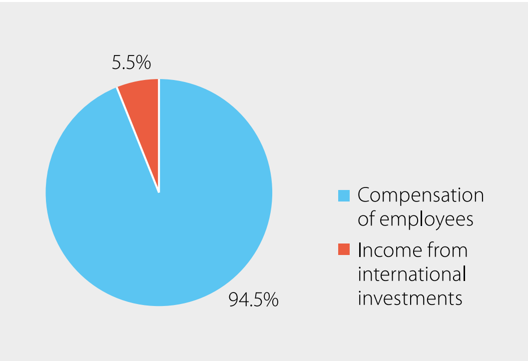
### 7.1.1.3. Primary income

In the first nine months this year, the primary income account ran a 84 million euros surplus, which represents an increase of 34.7% compared to the same period of 2020 when this account recorded a surplus of 62.4 million euros. This trend is the result of larger inflow based on compensations to employees.

Revenues from primary income amounted to 258.7 million euros, which is the year-on-year increase of 21.6%. The main share of these revenues referred to compensations to employees in the amount of 244.5 million euros (Graph 7.9). Revenues from international investment income amounted to 14.3 million euros, with the main share referring to collected interest in the amount of 8.4 million euros or 37.7% less y-o-y. The inflow from paid dividends amounted to 5.9 million euros, which is approximately at the same level as in the corresponding period of the previous year.

**Graph 7.9**

**Structure of revenues from primary income in the balance of payments in Montenegro, January-September 2021, in %**




Source: CBCG

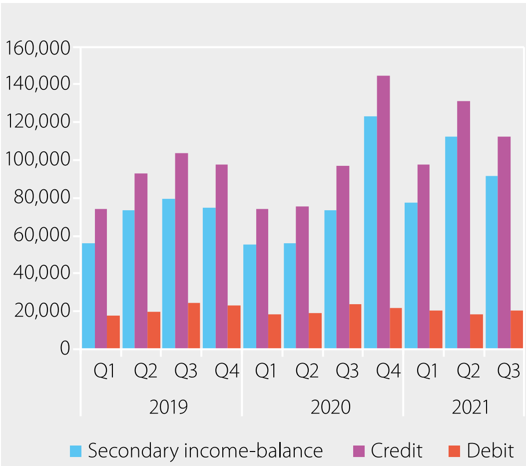
In the period January - September 2021, expenditures from primary income reached 174.7 million euros, being 16.2% higher y-o-y. The highest share of these expenditures of 140.3 million euros were expenditures from international investments and 34.5 million euros referred to expenditures for compensations to employees. Of total expenditures arising from international investments, interest repayment accounted for 99.4 million euros, recording an increase of 5% in relation to the corresponding period of 2020.

### 7.1.1.4. Secondary income

In the period January - September 2021, the secondary income account ran a surplus of 281.6 million euros, which is the year-on-year increase of 52.1% as a result of a higher inflow from personal transfers and various current government transfers (Graph 7.10).

**Graph 7.10**

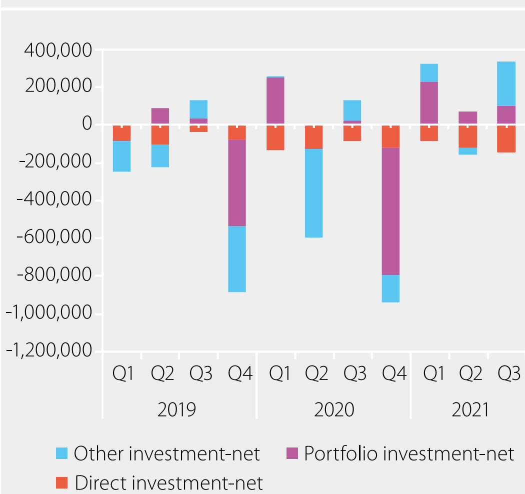
**Quarterly secondary income account trends in the balance of payments of Montenegro, Q1 2019 - Q3 2021, in thousand euros**




Source: CBCG

**Graph 7.11**

**Quarterly financial account structure in the balance of payments in Montenegro by the investment category, Q1 2019 - Q3 2021, in thousand euros**




Source: CBCG

Inflow arising from secondary income amounted to 341.2 million euros or 38.3% more y-o-y. The inflow structure shows that 300.3 million euros referred to other sectors (an increase of 34.1%), whereas 40.9 million euros referred to the government sector (an increase of 80.5%). Of the total inflow of transfers of other sectors, a total of 252.3 million euros were foreign personal transfers (remittances), which represents the year-on-year increase of 42.5%. The inflow from other current transfers amounted to 48 million euros, which is a 2.3% increase. The largest share of other current transfers related to social benefits (pensions) and they amounted to 30.6 million euros (up 3.7%).

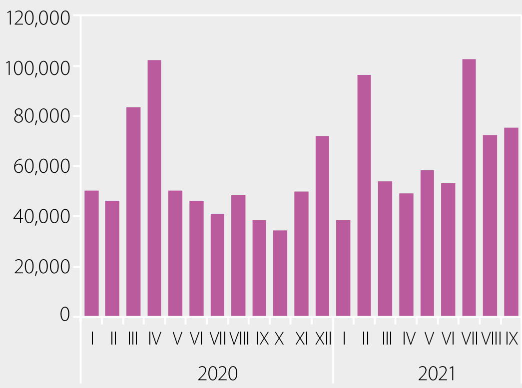
From January to September 2021, the outflow arising from secondary income, i.e. foreign transfers amounted to 59.6 million euros, which is 3% less y-o-y. The government sector accounted for the share of 8 million euros, while 51.6 million euros referred to other sectors. Outflow of monetary assets arising from personal transfers amounted to 28.5 million euros, recording an 4.4% decrease y-o-y, while the outflow arising from other current transfers amounted to 23.1 million euros.

## 7.2. Financial Account

From January to September 2021, the financial account saw a decline in net capital inflow, due to a recorded decrease in net inflow from other and portfolio investments (Graph 7.11). Such developments in the financial account are the result of the principal repayment for Eurobonds issued in previous years, the start of repayment of loans taken for the construction of the highway, the decline in equity investments, as well as lower borrowing by the state, banks and other sectors for the loans taken.

Graph 7.12

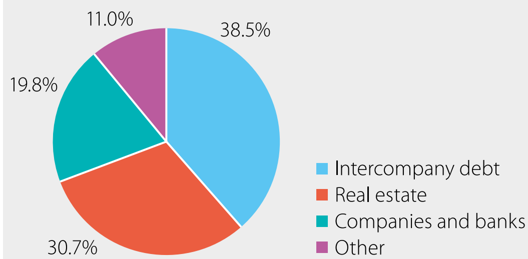
**Monthly total FDI inflow in the balance of payments of Montenegro, January 2020 - September 2021, in thousand euros**




Source: CBCG

Graph 7.13

**Structure of total FDI inflow in the balance of payments in Montenegro, January - September 2021, in %**




Source: CBCG

The account of direct investments recorded an increase in net inflow. Net FDI inflow amounted to 352.3 million euros, which is 2% more year-on-year and is the result of a larger inflow arising from equity investments. Total FDI inflow reached 599.9 million euros (Graph 7.12), while the outflow amounted to 247.6 million euros.

In the observed period, the inflow from debt investments declined[46], while equity investments increased in relation to the same period of the previous year. They amounted to 302.9 million euros or 84.3% more than in the same period in 2020. In the structure of total equity investments, investments in companies and banks accounted for 118.6 million euros (an increase of 29.1%), whereas investments in real estates amounted to 184.3 million euros (an increase of 154.3%). Total FDI inflow in the form of intercompany debt reached 231.2 million euros, which is a decrease of 25.9% compared to the corresponding period of the previous year (Graph 7.13).

In Q3 2021, the total FDI outflow amounted to 247.6 million euros, recording the year-on-year increase of 53.5%. The outflow from residents' investments abroad amounted to 69.6 million euros, while the withdrawal of non-residents' funds invested in Montenegro amounted to 178 million euros.

## Box 7.1 – Impact of the COVID-19 pandemic on FDI flows

Foreign direct investments (FDI) are an integral part of an open and efficient international economic system and a major catalyst for development. Given this fact, it is not negligible that the COVID-19 pandemic, according to UNCTAD data[47], caused a significant decline in international FDI flows of as much as 35%, from 1.5 trillion dollars in 2019 to 1 trillion dollars in 2020. A drop of over 50% was recorded in

[46] Debt investments, i.e. the debt position of direct investments consist of intercompany loans, which represent loans between related parties.

[47] *Source: UNCTAD - World Investment Report 2021.*

External Sector

utilities, construction, mining, logistics, agriculture and a number of industrial activities, such as the car industry, oil refining, machinery and electrical industry and metallurgy. A smaller decline of 30% was recorded in several industries such as IT, telecommunications, pharmaceutical industry, financial services and real estate.

According to UNCTAD preliminary data[48] global FDI flows in H1 2021 amounted to 852 billion dollars. The recorded recovery compensated more than 70% of the losses caused by the COVID-19 pandemic in 2020. The fastest recovery was recorded in developed countries, where the estimated value of FDI flows was 424 billion dollars - three times more than in the same period in 2020, but FDI growth was also recorded in developing countries during 2021.

However, investors' confidence at the global level is still affected by the crisis. On the one hand, international project financing contracts increased by 74%, while on the other hand, investors' confidence in industry and global value chains remained shaken. Moreover, the number of new projects in industries where global value chains are very significant (such as electronics, car industry and chemicals) declined further. The value of the announced greenfield investments and project financing contracts increased by 60%, but mainly due to the small number of a very large deals in the energy sector.

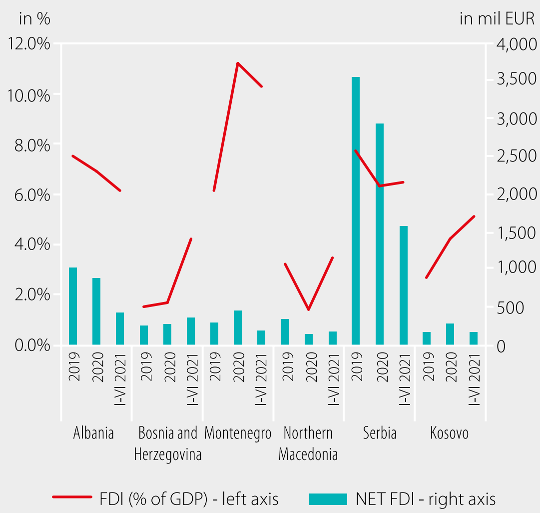
Preliminary UNCTAD projections indicated that global FDI flows would continue to recover during 2021, with some increase of 10-15%. This would still mean that FDIs are about 25% below 2019 level. However, the data recorded in H1 2021 indicate that the recovery is faster than expected. Although, significant risks remain, such as uncertainty about the degree of vaccination, the possibility of virus mutations, delays in reopening corporate sectors, bottlenecks in the labour and supply chains, energy prices and inflationary pressures.

The COVID-19 pandemic had a different impact on FDI flows in the countries of the region. Namely, Serbia, Albania and the Republic of North Macedonia saw a decline in net FDI inflows, while an increase in net FDI inflows in 2020 compared to 2019 was recorded in Bosnia and Herzegovina and Kosovo, but mostly due to reduced FDI outflows. In H1 2021, all countries in the region recorded a recovery in net FDI inflows compared to 2020.

FDI developments in Montenegro were not significantly affected by the COVID-19 crisis. In 2020, Montenegro recorded an increase in net FDI inflows, and the positive trend continued during 2021, when the net inflow from 2019 was already surpassed in the first nine months. In the period January - September 2021, the FDI gross inflow amounts to 90% of the total inflow from 2019, being 18.4% higher than in the same period in 2020.

**Graph 1**

**Net FDI of the regional countries and Montenegro, Q1 2019 - Q2 2021**




Source: Eurostat

[48] *Investments trend monitor, October 2021, Special WIF Factsheet Edition, UNCTAD*

In the years before the pandemic, the most significant share in the structure of FDI inflows were equity investments. From 2016 to 2019, they averaged at some 56% of the total inflow. In 2020, intercompany debt was predominant in total inflows, while equity investments declined. However, already in the first nine months of 2021, equity investments recorded a significant recovery, hence they again make up more than 50% of the total inflow.

The structure of the countries Montenegro records the largest FDI inflow from did not changed significantly. Over the last three years, FDI inflows from NATO countries averaged at 33% of the total FDI inflows, while FDI inflows from EU countries reached 32.5% of total FDI inflows on average. In 2020, the FDI inflows from CEFTA countries saw a decline, but in the first nine months of 2021, a significant recovery in FDI inflows from the region was recorded.

In the period January - September 2021, the *portfolio investments* account recorded a net outflow in the amount of 396.5 million euros (an increase of 43.8%), as a result of the principal repayment on previously issued Eurobonds during Q1 2021. Net outflow on the *other investments* account amounted to 294.8 million euros, while net inflow on this ground (of 357.4 million euros) was recorded in the same period of the previous year. Such trends are the result of lower borrowings by the state, banks and other sectors on the basis of loans taken in relation to the same period in 2020. Inflow on the basis of loan withdrawals by other sectors amounted to 94.4 million euros (decrease of 42.8%), while at the same time outflow on the basis of principal repayment of other sectors amounted to 136.7 million euros, which is approximately at the same level as in the previous year.

At end-Q3 2021, the amount of CBCG's monetary assets in foreign accounts and in the vault was 265.7 million euros lower compared to 31 December 2020.