

EXTERNAL SECTOR

07

7.1. Balance of payments

The current account deficit in the first nine months of 2024 was 776.86 million euros and increased by 115.79% compared to the same period of the previous year (with which all comparisons in this part of the report were made). Recorded deficit is primarily the result of the growth in visible imports, which was accompanied by a decline in visible exports, followed by a deficit in the primary income account (where a surplus was recorded in the previous period), and a decrease in the surplus in the services account. The financial account recorded an increase in net capital inflow, which is the result of the increase in net inflow in the other and direct investments accounts, as well as the net inflow in the portfolio investments account, while in the comparative period, a net outflow was recorded.

The deficit on the goods account amounted to 2,494.19 million euros and it was 11.82% higher compared to the previous year. Visible imports amounted to 2,957.93 million euros and was 170.17 million euros or 6.10% higher than in the comparative period, mainly due to the increase in the imports of road vehicles and electricity. At the same time, the total visible exports amounted to 463.74 million euros and it declined 93.54 million euros or 16.79% year-over-year, mostly as a result of electricity and coloured metals export decrease.

The services account recorded a surplus of 1,416.12 million euros, or 3.84% less compared to the same period last year, primarily as a result of negative trends in travel and tourism services. The services account recorded a decline in revenues of 4.33%, as well as a decline in expenditures of 5.23%, which resulted in a decrease in the total volume of services exchange by 4.57%, to the level of 2,955.08 million euros.

The primary income account recorded a deficit of 17.02 million euros, while in the comparative period this account recorded a surplus of 83.22 million euros. This outcome in the third quarter of 2024 is the result of an increase in expenditures based on paid dividends, which amounted to 124.17 million euros and mostly related to the financial sector. The secondary income account recorded a surplus of 318.24 million euros, which is 1.18% more than in the comparable period, and is largely the result of the growth in inflows from personal transfers and other current transfers. Inflow from remittances amounted to 628.61 million euros (an increase of 6.12%).

The financial income account saw a net FDI inflow of 372.58 million euros (18.76% more than in the comparative period). This is the result of an increase in inflows from investments in companies and banks (by 30.58 million euros or 44.02%), as well as an increase in inflows from intercompany debt (by 26.98 million euros or 14.25%). Based on portfolio investments, a net inflow of 406.60 million euros was recorded in the observed period, which is the result of the inflow based from the issue of government bonds on the international capital market. The other investments account registered a net inflow in the amount of 197.10 million euros which is 211.43% or 133.81 million euros higher year-on-year.

Table 7.1

Balance of Payments of Montenegro, in thousand euros ⁶⁰				
No.	Item	January - September 2023	January - September 2024	Change in %
1	CURRENT ACCOUNT	-360,009.76	-776,859.00	115.79
1.A	GOODS AND SERVICES BALANCE	-757,768.66	-1,078,074.94	42.27
1.A.a	Goods	-2,230,484.72	-2,494,194.88	11.82
1.A.a.1	Exports f.o.b.	557,274.60	463,735.91	-16.79
1.A.a.2	Imports f.o.b.	2,787,759.32	2,957,930.79	6.1
1.A.b	Services	1,472,716.06	1,416,119.94	-3.84
1.A.b.1	Revenues	2,284,633.66	2,185,600.08	-4.33
1.A.b.2	Expenditures	811,917.60	769,480.14	-5.23
1.B	Primary income	83,223.12	-17,022.61	
1.B.1	Revenues	303,759.16	347,480.96	14.39
1.B.2	Expenditures	220,536.04	364,503.57	65.28
1.C	Secondary income	314,535.78	318,238.55	1.18
1.C.1	Revenues	402,385.82	422,103.42	4.9
1.C.2	Expenditures	87,850.04	103,864.87	18.23
2	CAPITAL ACCOUNT	-28.64	-13.61	-52.48
2.A	Revenues	0	0	
2.B	Expenditures	28.64	13.61	-52.48
	CURRENT AND CAPITAL ACCOUNT BALANCE	-360,038.40	-776,872.61	115.77
3	FINANCIAL ACCOUNT, net	-341,450.67	-772,742.02	126.31
3.A	Financial assets net increase	-184,985.53	9,715.72	
3.B	Liabilities net increase	156,465.15	782,457.74	400.08
3.1	Direct investments, net	-313,723.00	-372,575.32	18.76
3.1.1	Financial assets net increase	32,976.62	49,987.67	51.59
3.1.2	Liabilities net increase	346,699.62	422,562.99	21.88
3.2	Portfolio investments, net	388,844.57	-406,600.69	
3.2.1	Financial assets net increase	390,575.62	252,713.39	-35.3
3.2.2	Liabilities net increase	1,731.05	659,314.08	37,987.52
3.3	Financial derivatives, net	-66,235.20	-18,130.53	-72.63
3.3.1	Financial assets net increase	-66,191.04	-11,139.03	-83.17
3.3.2	Liabilities net increase	44.16	6,991.50	15,732.20
3.4	Other investments, net	-63,287.88	-197,098.52	211.43
3.4.1	Financial assets net increase	-255,297.56	-503,509.35	97.22
3.4.2	Liabilities net increase	-192,009.68	-306,410.83	59.58
3.5	CBCG reserves (changes)	-287,049.16	221,663.04	
4	NET ERRORS AND OMISSIONS (3-2-1)	18,587.73	4,130.59	-77.78

Source: CBCG

⁶⁰ Montenegro's balance of payments' data published in accordance with the new IMF methodology (IMF Balance of Payment and International Investment Position Manual, sixth edition - BMP 6) from 2009.

7.1.1. Current and capital accounts

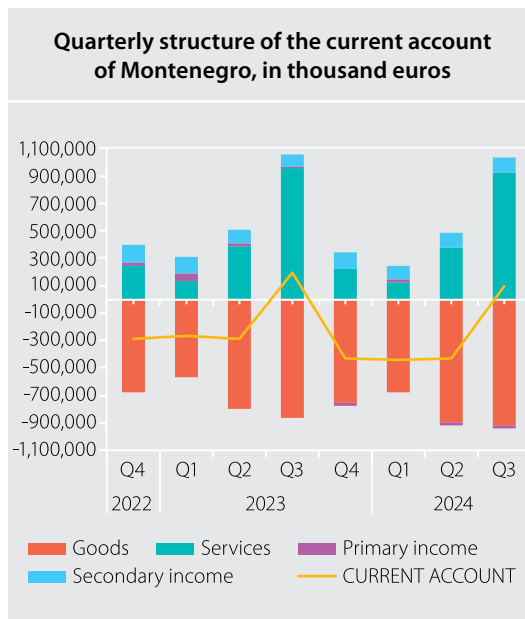
In the first nine months of 2024, a deficit on the current and capital account of Montenegro amounted to 776.87 million euros and this is the result of a deficit on the goods and primary income accounts, while a surplus was recorded on all other accounts (graph 7.1). The foreign trade deficit amounted to 2,494.19 million euros, while the deficit in the visible and invisible trade amounted to 1,078.07 million euros and increased by 320.31 million euros year-on-year, as a result of a larger deficit on the goods account (by 263.71 million euros) and surplus decline on the services account (by 56.60 million euros). The degree of coverage of import by visible and invisible exports was 71.08%, which represents a decline of 7.87 pp y-o-y. A surplus of 301.22 million euros was realized on the primary and secondary income accounts (a decrease of 96.54 million euros or 24.27%).

7.1.1.1. Visible trade⁶¹

In the period January - September 2024, according to MONSTAT data, there was an increase in the total exchange of goods with foreign countries compared to the previous year (a growth of 2.72%) due to an increase in imports (by 175.86 million euros or 6.13 %), despite the drop in exports (by 83.73 million euros or 16.20%). In the observed period, there was a decrease in the coverage of imports by exports of goods to 14.22%, which represents a decrease of 3.79 percentage points compared to the coverage recorded in the comparable period of the previous year (graph 7.2).

Total visible exports, according to the MONSTAT data, amounted to 433.07 million euros and it declined by 16.20% year-over-year. Observed by the SITC⁶² categories (table 7.2), the fall of the total

Graph 7.1



Source: CBCG

Graph 7.2



Source: MONSTAT and CBCG calculations

⁶¹ Methodological remarks: Data on foreign trade and balance of payment of Montenegro are shown according to the special trade 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 and International Investment Position Manual, Sixth Edition*, IMF, 2009). Data on visible imports and exports are presented per f.o.b. The adjustments made by the CBCG are the reason for the difference in the data presented in Table 7.1 and the data analysed in this chapter.

⁶² Standard International Trade Classification

export was primarily affected by the decline of the category *mineral fuels and lubricants*, whose export amounted to 98.21 million euros and was 112.43 million euros or 53.37% lower compared to the previous year. The recorded trend is the result of the decrease in exports in the subcategory *electricity*, where the value of exported goods amounted to 69.31 million euros, which represents a decrease of 115.36 million euros or 62.47% year-on-year. The record decline in electricity exports is partly the result of a comparison with the record base year, but also of unfavourable weather conditions due to which electricity production in the first nine months of this year, according to the EPCG data, was 8% less than expected.

Despite the recorded decline, the category of *mineral fuels and lubricants* exported the most products, which accounted for 22.68% of total exports (18.08 pp less than the share in the comparable period). In the structure of exports, the most exported products were *machines and transport equipment*, whose export amounted to 75.53 million euros (17.44% of total exports), which represents an increase of 14.81 million euros. In this category, the most represented are *mineral ores and metal scrap* whose exports amounted to 45.19 million euros, and *cork and wood* with exports of 26.13 million euros. A significant share in exports (17.33%) is also made up of the category of *machines and transport equipment*, which was exported in the amount of 75.06 million euros or 31.92 million more than in the comparable period, which increased the share of this category in total exports by 8.98 pp⁶³.

Table 7.2

Structure of visible exports from Montenegro, in thousand euros								
				Share			Change	Nominal difference
		Jan-Sep 2023 (in 000 euros)	Jan-Sep 2024 (in 000 euros)	Jan-Sep 2023 (in %)	Jan-Sep 2024 (in %)	Change in share (in pp)	Jan-Sep 2023 (in %)	Jan-Sep 2024 (in 000 euros)
0	Food and live animals	31,759.77	35,447.37	6.15%	8.19%	2.04	11.61%	3,687.60
1	Beverages and tobacco	24,524.91	28,217.99	4.75%	6.52%	1.77	15.06%	3,693.08
2	Raw materials, except fuels	60,719.76	75,534.04	11.75%	17.44%	5.69	24.40%	14,814.28
3	Mineral fuels and lubricants	210,642.32	98,213.76	40.76%	22.68%	-18.08	-53.37%	-112,428.56
4	Animal and vegetable oils and fats	1,598.33	1,628.89	0.31%	0.38%	0.07	1.91%	30.56
5	Chemical products	36,777.73	43,518.19	7.12%	10.05%	2.93	18.33%	6,740.46
6	Products classified by materials	80,299.04	44,066.78	15.54%	10.18%	-5.36	-45.12%	-36,232.26
7	Machinery and transport equipment	43,134.22	75,056.33	8.35%	17.33%	8.98	74.01%	31,922.11
8	Miscellaneous manufactured articles	21,145.46	27,190.40	4.09%	6.28%	2.19	28.59%	6,044.94
9	Products and transactions, otherwise not mentioned	6,200.00	4,200.03	1.2%	0.97%	-0.23	-3,226.00%	-1,999.97
TOTAL:		516,801.54	433,073.78	100.00%	100.00%		-16.20%	-83,727.76

Source: MONSTAT and CBCG calculations

Total visible imports, according to the SITC, amounted to 3,044.94 million euros and it rose 6.13% year-over-year. The increase in imports in relation to the previous year, viewed by the SITC categories, was mostly affected by the growth of imports of *machinery and transport equipment* (735.55 million euros) of 76.49 million euros or 11.61% (table 7.3). This is largely the result of an increase in imports of the subcategory *road vehicles* (276.91 million euros) higher by 38.17 million euros or 15.99 % more

⁶³ The largest part of exports in the category of *machinery and transport equipment* relates to temporary exports for the purposes of outward processing.

than in the comparative period. The additional growth of imports in this category was also affected by the *electrical machinery, apparatus and appliances* with the import of 128.81 million euros (a growth of 16.41 million euros or 14.60%).

In the structure of imports according to SITC, the most imported products were from the category *machinery and transport equipment* whose import accounted for 24.16% of total imports (1.19 pp more than a year ago). This is followed by products in the *food and livestock* category, which were imported in the amount of 573.83 million euros that represents an annual growth of 13.38 million euros or 2.39%. The share of this category in the total imports was 18.85% and decreased by 0.68 pp year-on-year. With the respective shares of 129.05 million euros and 90.96 million euros, *meat and meat preparations* and *vegetables and fruits* were the most significant sub-categories within the imports of *food and livestock*. Another category that had a significant share in imports was *products classified by materials* with 460.92 million euros or 15.14%. The recorded value of imported products in the subcategory *non-metal mineral products* increased 1.62% and reached 122.60 million euros, while in the subcategory *manufactures of metals* the import amounted to 115.25 million euros, which represents an increase of 5.14% year-over-year.

Table 7.3

Structure of visible imports in Montenegro, in thousand euros								
				Share			Change	Nominal difference
		Jan-Sep 2023 (in 000 euros)	Jan-Sep 2024 (in 000 euros)	Jan-Sep 2023 (in %)	Jan-Sep 2024 (in %)	Change in share (in pp)	Jan-Sep 2023 (in %)	Jan-Sep 2024 (in 000 euros)
0	Food and live animals	560,447.89	573,830.59	19.53%	18.85%	-0.68	2.39%	13,382.70
1	Beverages and tobacco	119,585.91	127,546.98	4.17%	4.19%	0.02	6.66%	7,961.07
2	Raw materials, except fuels	24,998.99	25,121.74	0.87%	0.83%	-0.04	0.49%	122.75
3	Mineral fuels and lubricants	297,309.62	332,566.54	10.36%	10.92%	0.56	11.86%	35,256.92
4	Animal and vegetable oils and fats	13,758.53	15,604.30	0.48%	0.51%	0.03	13.42%	1,845.78
5	Chemical products	317,938.08	350,807.67	11.08%	11.52%	0.44	10.34%	32,869.59
6	Products classified by materials	470,862.15	460,919.94	16.41%	15.14%	-1.27	-2.11%	-9,942.21
7	Machinery and transport equipment	659,060.14	735,552.30	22.97%	24.16%	1.19	11.61%	76,492.16
8	Miscellaneous manufactured articles	400,185.13	417,756.08	13.95%	13.72%	-0.23	4.39%	17,570.96
9	Products and transactions, otherwise not mentioned	4,934.39	5,236.20	0.17%	0.17%	0.00	6.12%	301.81
TOTAL:		2,869,080.83	3,044,942.35	100.00%	100.00%		6.13%	175,861.52

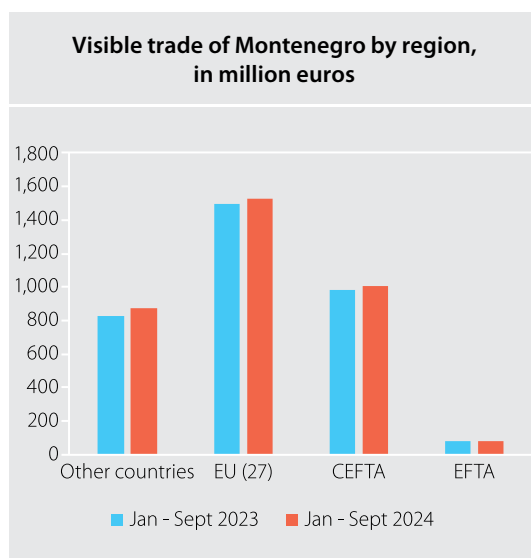
Source: MONSTAT and CBCG calculations

Regarding regional structure of exports, in the observed period, the main foreign trade partners of Montenegro were the CEFTA⁶⁴ countries, to which 46.11% of goods were exported, followed by the EU member states with a share of 32.36% (within these countries, electricity is exported the most), and the EFTA⁶⁵ countries (5.08%), while other countries accounted for 16.45% of total exports. Goods from the most represented category, *machines and transport devices*, are mostly imported from China and Germany, and goods from the food and live animals category from Serbia and Croatia.

⁶⁴ 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.

⁶⁵ The EFTA is international governmental organization consisting of Iceland, Liechtenstein, Norway and Switzerland.

Graph 7.3

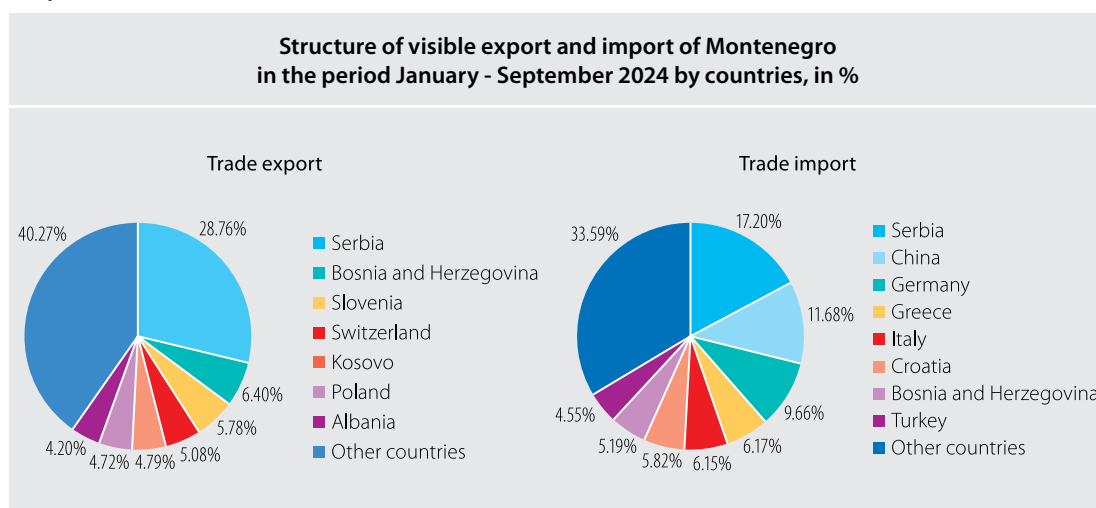


Source: MONSTAT

Most goods were imported from the EU (45.50%), then CEFTA and EFTA countries (26.34% and 1.84%, respectively), while 26.32% of goods were imported from other countries (graph 7.3). If we look at the structure of imports, mostly imported goods are oil and oil derivatives as well as road vehicles that came from the EU countries, while electricity, water, cement and bread were mostly imported from the CEFTA countries.

In consideration of individual countries, the biggest export Montenegro's partners were Serbia (124.55 million euros), Bosnia and Herzegovina (27.72 million euros) and Slovenia (25.04 million euros). In terms of imports, Serbia is in first place (523.62 million euros), followed by China (355.57 million euros) and Germany (294.23 million euros), (graph 7.4).

Graph 7.4

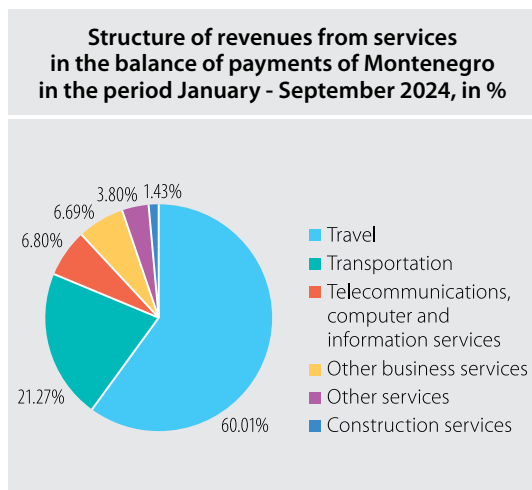


Source: MONSTAT and CBCG calculations

7.1.1.2. Services

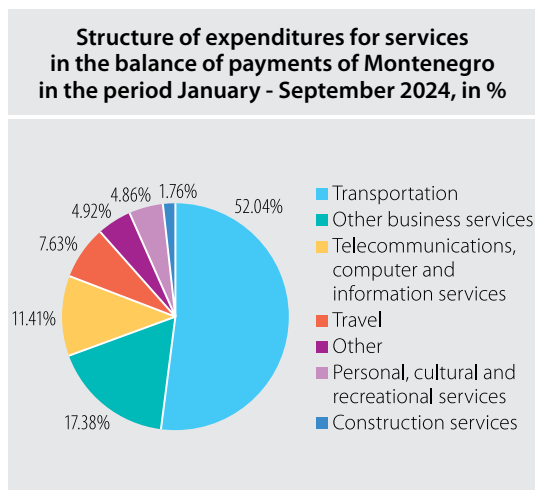
In the international invisible trade in the period January - September 2024, a surplus was recorded in the amount of 1,416.12 million euros, which is 56.60 million euros or 3.84% less relative to the comparable period of the previous year. The decrease in the surplus on this account is primarily the result of a decrease in revenues, although a decrease in expenditures was also recorded. At the same time, in absolute numbers, a higher decrease in revenues was recorded than the decrease in expenditures, while, viewed in percentage terms, revenues decreased by 4.33% and expenditures by 5.23%. Consequently, the total volume of exchange of services decreased by 4.57%, and amounted to 2,955.08 million euros.

Graph 7.5



Source: CBCG

Graph 7.6



Source: CBCG

Total services revenues amounted to 2,185.60 million euros. These revenues were recorded mostly from travel - tourism - 1,311.67 million euros, transport - 464.94 million euros (mostly on the basis of electricity transmission), telecommunication, computer and IT services -148.66 million euros and other business services - 146.32 million euros (graph 7.5), while 31.01 million euros were related to construction services, and 83 million euros to other services.

In the observed period, expenditures for services amounted to 769.48 million euros and were 5.23% lower year-over-year. In the structure of expenditures, the largest share (52.04%) was recorded by expenditures for transport in the amount of 400.41 million euros, followed by expenditures for other business services (17.38%) which amounted to 133.72 million euros (graph 7.6). Within these services, most of the expenditures were for professional and consulting services (85.80 million euros) and technical, trade and other business services (41.79 million euros). In the structure of expenditures for services, 87.79 million euros were related to expenditures on telecommunication, computer and IT services, 58.69 million euros to travel and tourism services, and 88.86 million euros to other services.

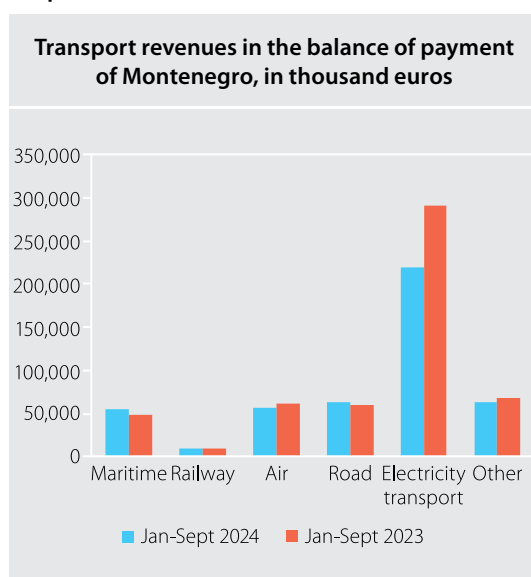
A surplus in the amount of 64.53 million euros was recorded on the account of transport services in the observed period, which is higher by 25.09 million euros or by 63.61% compared to the comparative period, due to the increase in the surplus based on the exchange of transport services related to transmission of electricity, as well as the surplus on the maritime transport services sub-account.

When all types of transport are considered, the largest exchange of services was recorded in freight transport, namely 289.63 million euros in exports and 279.40 million euros in imports, predominantly due to pipeline transport services and electricity transmission. The flows recorded on this basis represent 47.13% of total revenues and 42.81% of expenditures from transport services. During the first three quarters of 2024, Montenegro earned 219.13 million euros from pipeline transport and electricity transmission services (a decrease of 24.87%), but also paid 171.41 million euros for the same services (a decrease of 37.85%). Accordingly, the balance of cross-border electricity purchase and sale was positive and amounted to 47.72 million euros.

Total transport expenditure amounted to 464.94 million euros or 13.79% less year-over-year. In the structure of revenues from transport services, road transport accounts for 13.48%, air transport 12.04%, maritime transport 11.70%, and railway transport 2.19%, while the remaining 13.46% refers to other revenues from transport services (excluding the electricity transmission services mentioned above). Revenues recorded in road and air transport amounted to 62.68 million euros and 55.97 million euros, respectively, which is 4.43% more and 8.79% less than during the comparative period of the previous year. Revenues recorded in maritime transport amounted to 54.40 million euros, which is 11.77% more than in the comparative period. In railway transport, revenues amounted to 10.17 million euros and recorded an increase of 6%. Expenditures realized on the basis of assistance, support and other transport services amounted to 60.55 million euros, which is approximately at the same level year-on-year. These revenues mostly relate to the rental of vehicles with crew for a certain period, freight forwarding services, as well as other services related to transport. Postal and courier services, as well as inland water transport, accounted for the remaining 0.44% in total.

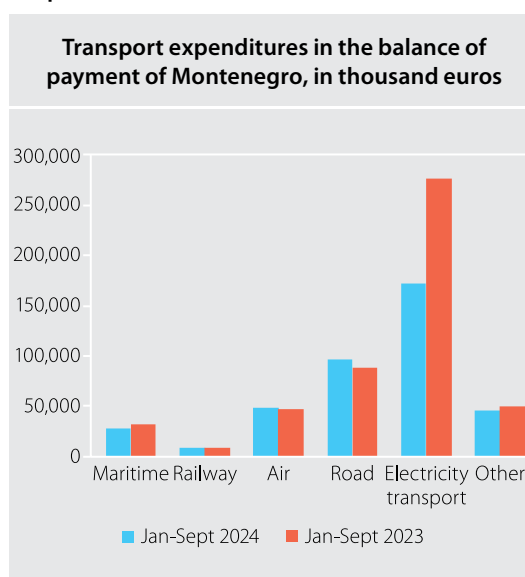
Total transport expenditures amounted to 400.41 million euros, which is 99.46 million euros or 19.90% less year-on-year. After the aforementioned expenditures in the field of electricity transport, the largest expenditures were incurred on the basis of road transport and accounted for 24.25% of total expenditures. This is followed by air transport with a 12.27% share, maritime transport with 6.99%, and railway transport with the smallest share in total transport expenditures (2.30%), while expenditures for other transport services accounted for 11.39% excluding the aforementioned electricity transmission services. Road transport expenditures amounted to 97.09 million euros (a 10% increase), air transport expenditures reached 49.12 million euros (a 5.02% increase), while maritime transport expenditures recorded a decrease of 11% and reached 27.97 million euros. Railway transport expenditures amounted to 9.21 million euros and recorded a growth of 15.27%. Expenditures incurred on aid, support and other transport services amounted to 44.18 million euros (an increase of 8.56% or 3.48 million euros), while the remaining 0.36% related to inland water transport and postal and courier services.

Graph 7.7



Source: CBCG

Graph 7.8



Source: CBCG

In the observed period, the estimated revenues from travel-tourism amounted to 1,311.67 million euros and are 3.64% lower relative to the comparative period. The recorded decrease is primarily the result of fewer overnights by foreign tourists in individual accommodation (8.41%), while overnights in collective accommodation were 1.80% higher. Expenditures on the same basis amounted to 58.69 million euros (an increase of 20.25%), which resulted in a surplus on this account of 1,252.98 million euros or 4.53% less year-over-year.

During the period January - September 2024, the construction services account recorded total revenues of 31.01 million euros (approximately the same level year-on-year), while expenditures for hiring non-resident construction workers amounted to 13.57 million euros (a decrease of 3.23%). This trend in revenues and expenditures based on construction services resulted in a surplus of 17.44 million euros, which is 1.74% more compared to the previous year.

Revenues from other business services amounted to 146.32 million euros, with the main share of 94.68 million euros from the provision of various business, professional and consulting services. Expenditures for other business services amounted to 133.72 million euros and were higher by 21.68%, which is a consequence of an increase in expenditures for technical, trade and other business services, as well as professional and management consulting services (by 42.91% and 16.97%, respectively). Recorded flows on the import side, accompanied by a 1.45% decline in revenues on this basis, resulted in a surplus of 12.59 million euros (a decline of 67.36%).

7.1.1.3. Primary income

The primary income account recorded a deficit in the amount of 17.02 million euros, while in the comparative period this account recorded a surplus in the amount of 83.22 million euros. This outcome is the result of an increase in expenditures from international investments by 67.32%, which amounted to 282.52 million euros.

Revenues recorded on the basis of primary income amounted to 347.48 million euros, which represents a growth of 14.39% year-on-year and they predominantly came from employee compensations (80.81%). The inflow from compensations amounted to 280.80 million euros (growth of 6.34%). Revenues from international investment income amounted to 66.68 million euros, with the main share (91.22%) coming from interest in the amount of 60.82 million euros (a 26.14 million euros increase year-over-year). Revenues from dividends accounted for 5.70 million euros (8.55%) and it dropped by 14.39% year-on-year.

Primary income expenditures reached 364.50 million euros (a 65.28% increase), and most of them related to expenditures from international investments, 282.52 million euros or 77.51%, while 81.98 million euros or 22.49% related to expenditures for employee compensation. Of total expenditures arising from international investments, interest repayment accounted for 158.35 million euros, which is an increase of 24.47%. Expenditures based on paid dividends amounted to 124.17 million euros and were 82.55 million euros or 198.30% higher than in the comparable period due to the decisions on the payment of dividends from the accumulated profit, mostly by those companies that operate in the financial sector.

7.1.1.4. Secondary income

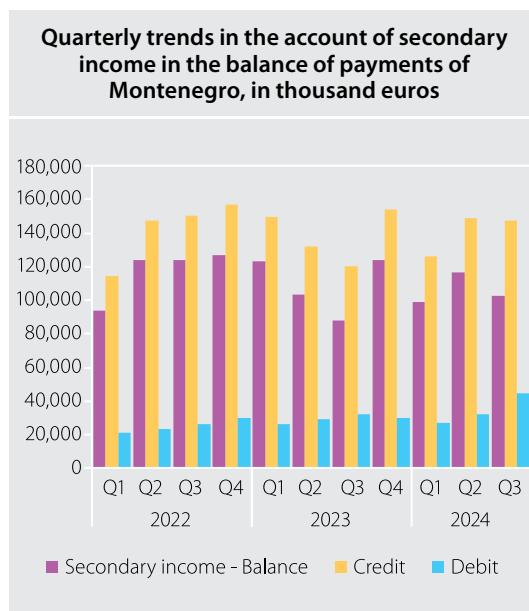
During the first nine months of 2024, the surplus in the secondary income account amounted to 318.24 million euros, which is 4.73% more than in the same period of the previous year. The increase in the surplus on this account is mostly the result of the increase in inflows to other sectors, that is, on the basis of the increase in the inflow of personal and other current transfers.

The inflow from secondary income amounted to 422.10 million euros (growth of 4.90%). In the revenues structure, 379.94 million euros or 90.01% referred to other sectors, while the government sector accounted for a smaller portion of 42.16 million euros and is 13.05% lower year-on-year. From the total inflow of transfers from other sectors, 309.05 million euros were realized based on personal transfers

from abroad (an increase of 5.15% relative to the comparative period), while the inflow based on other current transfers amounted to 70.89 million euros (an increase of 18.18%). In other current transfers (42.16 million euros), the largest part, in the amount of 38.76 million euros, related to social benefits (pensions), which recorded a growth of 12.69%.

The outflow based on secondary income, i.e. transfers abroad, amounted to 103.86 million euros, which represents an increase of 18.23% compared to the previous year. The main share of this outflow of 82.30 million euros referred to other sectors, while the government sector accounted for 21.57 million euros. Within the outflow of funds from other sectors, personal transfers accounted for 47.11 million euros (an increase of 10%), while the outflow from other current transfers amounted to 35.19 million euros and was 24.02% higher compared to the first quarter of the previous year.

Graph 7.9



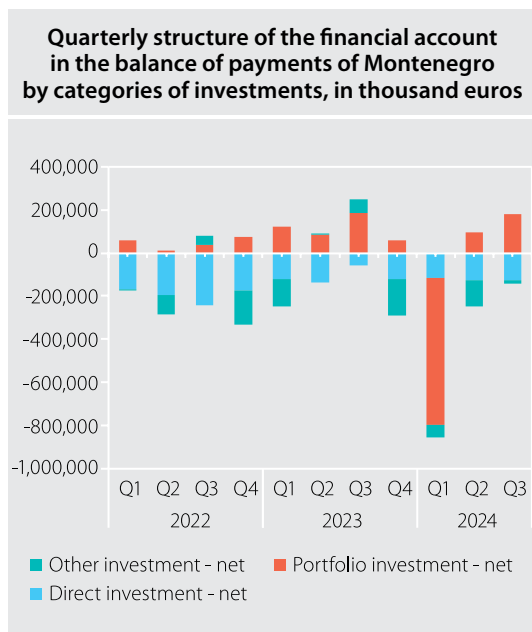
Source: CBCG

7.1.2. Financial account

In the financial account, in the period January - September 2024, a net capital inflow of 772.74 million euros was recorded, which is 431.29 million euros more than in the same period of the previous year. Financial account trends are characterized by an increase in net inflows on the account of direct and other investments. The portfolio investment account recorded a net inflow, while in the comparable period of the previous year, a net outflow was recorded (graph 7.10). The sectoral structure of the financial account shows that the banking sector recorded a net outflow based on financial transactions, while the government and other sectors recorded a net inflow.

Net FDI inflow amounted to 372.57 million euros, which is 18.76% more year-on-year. Total FDIs inflow amounted to 657.67 million euros (Graph 7.11), while the outflow amounted to 285.10 million euros.

Graph 7.10

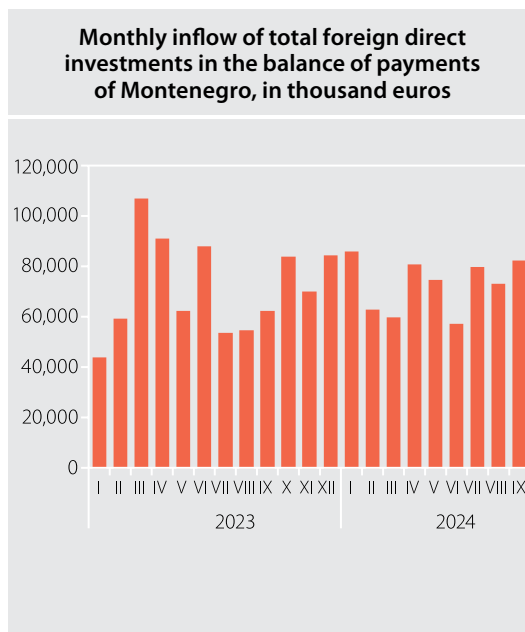


Source: CBCG

In the reporting period, the total inflow of foreign direct investments increased by 34.05 million euros or 5.46% year-over-year. Inflow based on debt investments (intercompany debt) amounted to 216.39 million euros and increased by 14.25%, while equity investments amounted to 420.28 million euros and increased by 3.87% year-on-year.

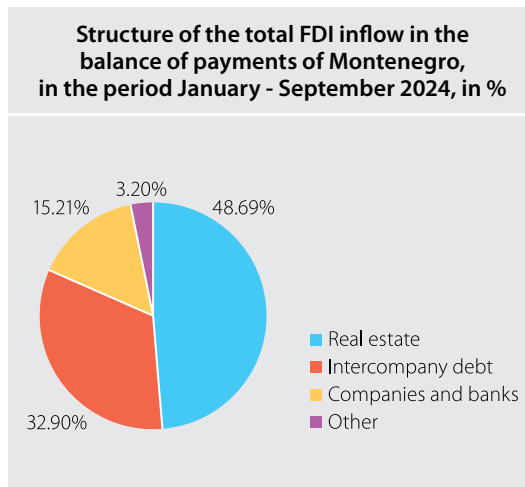
In the structure of equity investments (graph 7.12), 320.23 million euros related to the inflow based on investments in real estates (fall of 4.46%), while the inflow based on investments in companies and banks amounted to 100.05 million euros (growth of 44.02%). FDI inflow in the form of other investments, that is, the inflow based on the withdrawal of investments from abroad, amounted to 21 million euros (a decrease of 29.01%). The structure of inflows (graph 7.13) has not changed significantly, and real estate investments during the first three quarters of 2024, as well as during the previous year, accounted for the largest share of FDI inflows, although reduced by 5.05 pp. In the inflow structure, the share of investments in companies and banks increased by 4.07 percentage points and the share of intercompany debt by 2.53 percentage points.

Graph 7.11



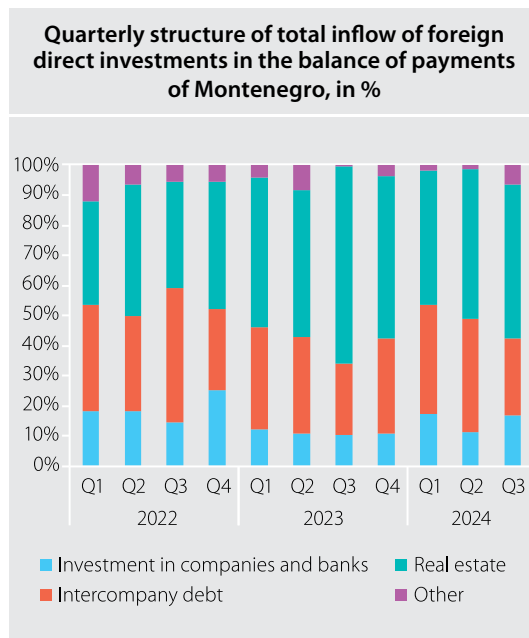
Source: CBCG

Graph 7.12



Source: CBCG

Graph 7.13



Source: CBCG

withdrawal of loan funds by other sectors amounted to 90.98 million euros (a decrease of 22.45%), while an outflow was recorded based on the principal repayment by other sectors in the amount of 176.13 million (a decrease of 4.33%). At the same time, the inflow based on the withdrawal of loan funds by the government amounted to 59.47 million euros (a decrease of 52.56%), while an outflow was recorded based on the principal repayment in the amount of 250.98 million euros (an increase of 35.76%). In the same period, banks decreased their foreign loan indebtedness.

At end-September 2024, the Central Bank's monetary assets in foreign accounts and the vault increased by 221.66 million euros relative to 31 December 2023.

Total FDI outflow amounted to 285.10 million euros and it decreased 24.80 million euros or 8% year-on-year. In the structure outflow from residents' investments abroad amounted to 70.99 million euros, while the withdrawal of non-residents' funds invested in Montenegro amounted to 214.11 million euros.

The portfolio investments account recorded a net inflow of 406.60 million euros in the observed period, while year-on-year, this account recorded a net outflow. A significant net inflow resulted from the issuance of government bonds on the international capital market during the first quarter of 2024.

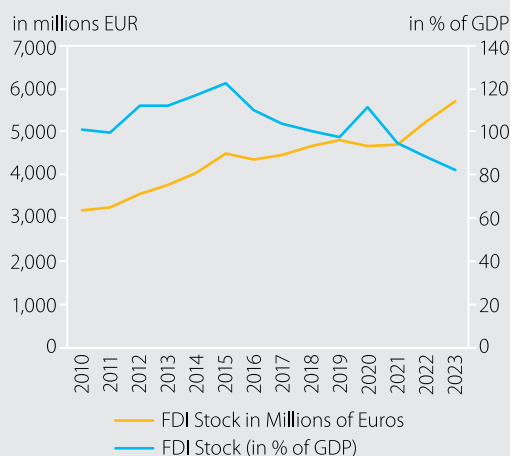
The net outflow on the account of other investments was 197.10 million euros, which represents a growth of 133.81 million euros year-on-year, when the recorded net outflow amounted to 63.29 million euros. The dominant instrument on the liabilities side are loans. The inflow based on the

Box 7.1 – Trends and structure of the foreign direct investment in Montenegro in 2023

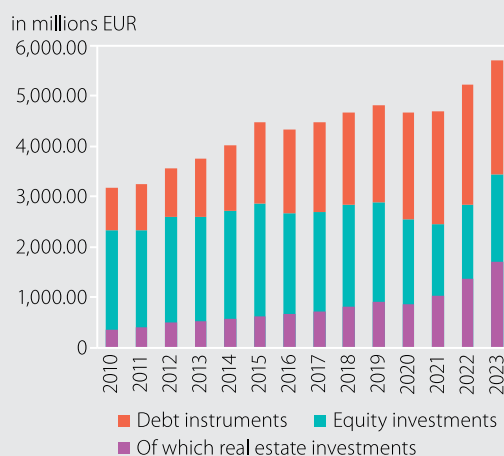
According to preliminary data, foreign direct investments in Montenegro amounted to 5,718.45 million euros at the end of 2023, representing an annual growth of 9.28%. Equity investments, which include investments in capital and real estate investment valuations, accounted for 60.23% of the total investments, while debt instruments (intercompany debt) accounted for the remaining 39.77% of total investments.

Since 2010, Montenegro has recorded an increasing trend in terms of foreign direct investment, although their share in GDP has been in a slight decline since 2015 and at the end of 2023 amounted to 82.12% of GDP (graph 1). Also, although there has been an increase in both equity and debt investments since 2021, the share of debt instruments in the structure of FDI has increased (graph 2).

Graph 1
FDI stock in Montenegro,
2010 - 2023

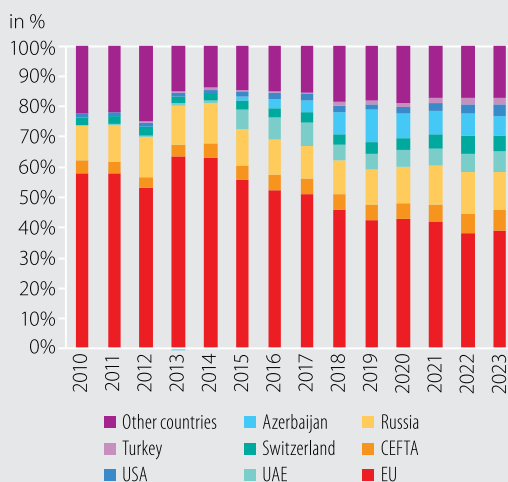


Graph 2
FDI structure in Montenegro by type of
investment, 2010 - 2023, in million euros

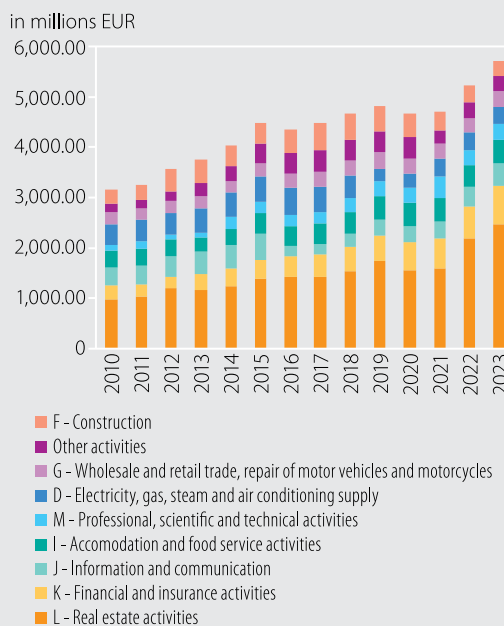


Data presented in graph 3 indicate that the geographical structure of foreign direct investment has not changed significantly in the analysed period. EU countries dominate as the main source of FDI, which is evident from their significant share in the overall structure. Investments from EU countries account for 39.25% of the total FDI in 2023. However, if we look at the period since 2010, an increase in diversification is evident, given that the EU's participation has been reduced in favour of increasing the participation of other regions and countries. The growth in the participation of the USA, UAE, Azerbaijan and Turkey is particularly noticeable. Investments from CEFTA countries in the observed period maintained a stable share of, on average 5% of the total investment stock.

Graph 3
FDI structure by countries, 2010 - 2023



Graph 4
FDI structure by activities, 2010 - 2023



The structure of foreign direct investment by activities shows that the largest inflows were recorded in sectors key to tourism development (graph 4), including real estate, construction, and accommodation and food services. In addition, significant investments are also directed at the electricity supply sectors, financial activities, as well as activities related to information and communications.

7.2. External debt

Preliminary data indicates that the gross external debt of Montenegro amounted to 9,412.69 million euros at the end of the third quarter of 2024. Compared to the end of December of the previous year, this debt increased by 343.64 million euros, due to a larger increase in debt recorded in the public sector compared to the private sector.

Table 7.4

The structure of the external debt of Montenegro, in million euros and in %							
	Q1-2023	Q2-2023	Q3-2023	Q4-2023	Q1-2024	Q2-2024	Q3-2024
Public sector debt	3,723.23	3,715.99	3,697.65	3,619.33	4,259.25	4,194.30	4,147.60
<i>General Government</i>	3,619.56	3,613.40	3,593.62	3,517.29	4,156.65	4,091.32	4,046.07
<i>Central Bank</i>	103.67	102.59	104.03	102.04	102.60	102.98	101.53
Private sector debt	5,649.06	5,605.76	5,504.54	5,449.72	5,529.18	5,530.09	5,265.09
<i>Depository institutions</i>	1,566.52	1,514.84	1,490.12	1,434.80	1,518.32	1,530.78	1,411.71
<i>Other sectors</i>	1,891.47	1,847.00	1,811.89	1,737.22	1,704.34	1,684.06	1,651.37
<i>Intercompany borrowings</i>	2,191.07	2,243.92	2,202.53	2,277.70	2,306.52	2,315.25	2,202.01
Total external debt	9,372.29	9,321.75	9,202.19	9,069.05	9,788.43	9,724.39	9,412.69
Structure of external debt, in %							
Public sector debt	39.73	39.86	40.18	39.91	43.51	43.13	44.06
<i>General Government</i>	38.62	38.76	39.05	38.78	42.46	42.07	42.99
<i>Central Bank</i>	1.11	1.10	1.13	1.13	1.05	1.06	1.08
Private sector debt	60.27	60.14	59.82	60.09	56.49	56.87	55.94
<i>Depository institutions</i>	16.71	16.25	16.19	15.82	15.51	15.74	15.00
<i>Other sectors</i>	20.18	19.82	19.69	19.16	17.41	17.32	17.54
<i>Intercompany borrowings</i>	23.38	24.07	23.94	25.11	23.57	23.81	23.40
Total external debt	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: CBCG and Ministry of Finance

In the structure of Montenegro's external debt, public sector⁶⁶ debt accounted for 44.06% and the private debt accounted for 55.94% (graph 7.14). The external debt of the public sector amounted to 4,147.60 million euros, which represents an increase of 528.28 million euros compared to the end of the previous year. This growth is the result of increased liabilities arising from bonds issued on the foreign market.

⁶⁶ The public sector includes the General Government and the Central Bank, while the private sector includes depository institutions, intercompany borrowings and other sectors. The Central Bank refers to the allocation of SDRs at the IMF.

In the structure of the public sector external debt, within the general government⁶⁷ category, the debt balance based on credit liabilities amounted to 1,608.31 million euros, and based on Eurobonds issued in previous years amounted to 2,437.76 million euros, while the external debt category of the Central Bank of Montenegro amounted to 101.53 million euros (SDR allocation with the IMF).

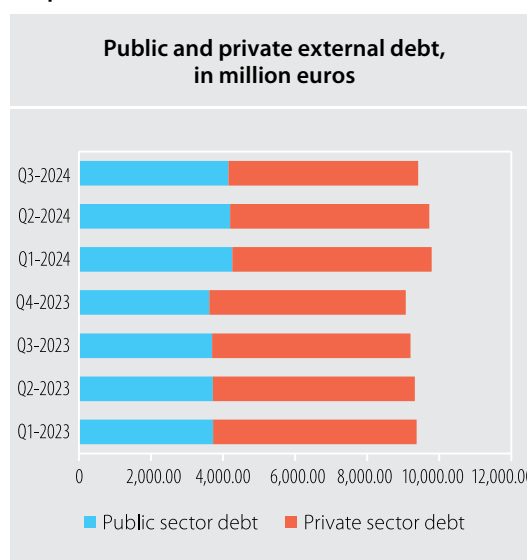
External debt of the private sector⁶⁸ amounted to 5,265.08 million euros or 184.63 million euros less than in the previous year-end. Observed by the type of financial instruments, the largest part of private sector debt (75.35%) in the amount of 3,967.30 million euros related to loans, while the remaining 24.65% related mostly to cash and deposits and debt securities.

In the structure of the private sector's external debt, observed by institutional sectors, the largest share of 41.82% was held by intercompany debt, which amounted to 2,202.01 million euros, and is recorded as a foreign direct investment according to the IMF methodology. In the structure of private sector debt, the share of other sectors⁶⁹ was also significant, 31.36%, in the amount of 1,651.36 million euros.

Depository institutions' liabilities abroad accounted for 26.81% of total private sector debt and amounted to 1,411.71 million euros, of which the largest share was held by deposits in the amount of 1,270.72 million euros.

The currency structure of total external debt at the end of the third quarter of 2024 is dominated by the euro with around 95% share, which makes the country's risk relatively low, considering that the euro is the official means of payment in Montenegro. The structure of the external debt of the private sector according to maturity is favourable considering that about 95% is of a long-term nature (deposits excluded).

Graph 7.14



Source: CBCG and Ministry of Finance

⁶⁷ The coverage of the General government follows the IMF methodology prescribed by the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) and the External Debt Statistics - Guide for Compilers and Users and it deviates from the coverage in the national definition (includes debt of local self-governments and debt of state-owned companies to non-residents).

⁶⁸ The private sector includes: deposit institutions except the central bank (commercial banks) and other sectors (all financial institutions except banks, non-financial corporations, non-profit institutions that provide services to households and households, including entrepreneurs and natural persons) and direct investments (intercompany borrowings). Data on private sector debt include estimates of the debt of natural persons, as well as estimates of the debt of companies that have not submitted reports, based on net flows from the balance of payments (ITRS).

⁶⁹ The debt of other sectors covers non-banking financial institutions, companies and natural persons.

7.3. International investment position

At the end of Q3 2024, the net international investment position⁷⁰ (IIP) of Montenegro was -7,548.40 million euros. Total foreign claims of residents amounted to 5,553.76 million euros, and liabilities amounted to 13,102.16 million euros.

Table 7.5

Structure of the international investment position of Montenegro, in million euros										
	Net IIP Q3-2023	Share %	Net IIP Q4-2023	Share %	Net IIP Q1-2024	Share %	Net IIP Q2-2024	Share %	Net IIP Q3-2024	Share %
1. International Investment Position, net	-7,100.33		-7,388.62		-7,721.29		-7,843.36		-7,548.40	
2. ASSETS	5,458.03	100.00%	5,156.86	100.00%	5,588.73	100.00%	5,421.09	100.00%	5,553.76	100.00%
2.1. Direct investments	234.88	4.30%	257.97	5.00%	270.98	4.85%	282.77	5.22%	290.22	5.23%
2.2. Portfolio investments	1,230.78	22.55%	1,200.28	23.28%	1,276.51	22.84%	1,269.82	23.42%	1,349.26	24.29%
2.3. Financial derivatives	0.54	0.01%	0.04	0.00%	0.03	0.00%	0.02	0.00%	0.00	0.00%
2.4. Other investments	2,367.77	43.38%	2,273.58	44.09%	2,195.35	39.28%	2,286.23	42.17%	2,270.18	40.88%
2.5. CBCG reserves	1,624.06	29.76%	1,424.99	27.63%	1,845.86	33.03%	1,582.24	29.19%	1,644.10	29.60%
3. LIABILITIES	12,558.36	100.00%	12,545.48	100.00%	13,310.02	100.00%	13,264.45	100.00%	13,102.16	100.00%
3.1. Direct investments	5,528.15	44.02%	5,721.87	45.61%	5,796.19	43.55%	5,833.87	43.98%	5,873.36	44.83%
3.2. Portfolio investments	1,784.86	14.21%	1,784.15	14.22%	2,472.32	18.57%	2,462.76	18.57%	2,457.68	18.76%
3.3. Financial derivatives	0.04	0.00%	2.41	0.02%	1.60	0.01%	1.00	0.01%	2.60	0.02%
3.4. Other investments	5,245.31	41.77%	5,037.05	40.15%	5,039.91	37.87%	4,966.84	37.44%	4,768.52	36.39%

Source: CBCG

The negative net international investment position at the end of Q3 2024 increased by 159.78 million euros at the end-2023, due to an increase in financial assets (by 556.69 million euros), the impact of which was somewhat mitigated by the simultaneous increase in financial liabilities (by 396.90 million euros).

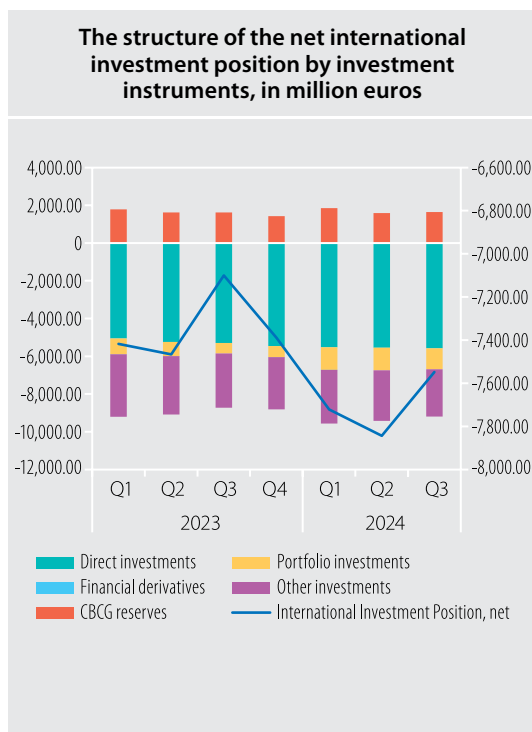
Observing the net positions by investment instruments⁷¹ (assets minus liabilities), preliminary data indicate that portfolio investments recorded increase of 524.55 million euros, FDI recorded growth of 119.24 million euros, while other investments decreased by 265.12 million euros.

Growth on the asset side during the third quarter of 2024 was generated by the growth in direct investment and portfolio investment positions. Analysing the structure of funds by investment instruments, other investments have the largest share in total assets (40.88%), followed by CBCG reserves, which have a share of 29.60% of total assets, while portfolio investments have a share of 24.29% in total assets.

⁷⁰ The net international investment position represents the difference between foreign financial assets (receivables) and foreign financial liabilities.

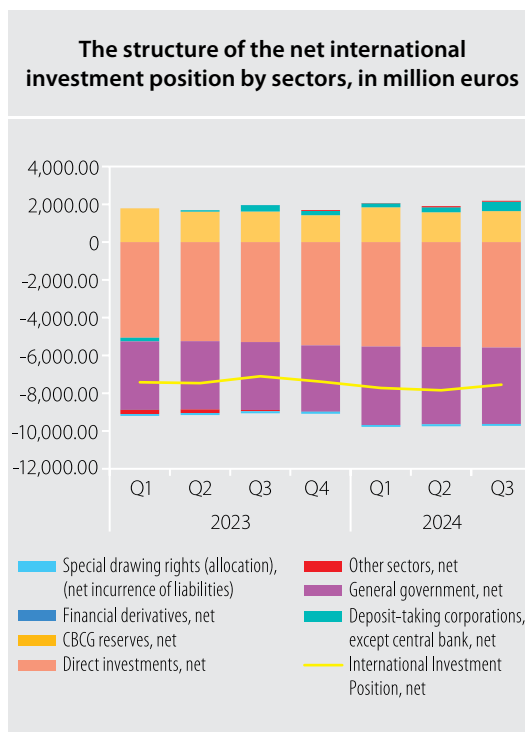
⁷¹ Direct investments, portfolio investments, financial derivatives, other investments and reserves.

Graph 7.15



Source: CBCG

Graph 7.16



Source: CBCG

The analysis of the structure of Montenegro's total financial liabilities abroad shows that the largest share of direct investments is 44.83% (5,873.36 million euros and an increase of 151.49 million euros), the largest part of which refers to equity investments 62.51% (3,671.35 million euros), while other investments' share in total liabilities is 36.39% (4,768.52 million euros). The largest part of them are liabilities based on taken loans.

With the annual decrease of 253.03 million euros, loans were the main financial instrument on the liabilities side with 3,373.61 million euros (a share of 25.75% in total liabilities).

The share of liabilities for portfolio investments reached 2,457.68 million euros or 18.76% of total liabilities at end-Q3 2024 (main share was of liabilities for issued Eurobonds).