



Macroeconomic Report of the Central Bank of Montenegro Q3 2024

Podgorica, 2024

PUBLISHED BY

Central Bank of Montenegro
Bulevar Svetog Petra Cetinjskog 6
81000 Podgorica
Telephone: +382 20 664 997, 664 269
Fax: +382 20 664 576

WEB SITE

<http://www.cbcg.me>

CENTRAL BANK COUNCIL

Irena Radović, PhD, Governor
Nikola Fabris, PhD, Vice-Governor
Zorica Kalezić, PhD, Vice-Governor
Milorad Jovović, PhD
Ruždija Tuzović

DESIGNED BY

Nikola Nikolić
Nikola Mardonović

TRANSLATED BY

Department for Financial Stability, Research and Statistics

Users of this publication are requested to make reference to the source of information whenever they use data from the Report.

CONTENTS

MACROECONOMIC ENVIRONMENT IN MONTENEGRO	7
1. REAL SECTOR DEVELOPMENTS	11
1.1. Gross Domestic Product	13
1.2. Activities	14
1.3. Prices	24
1.4. Labour Market	28
2. MONETARY DEVELOPMENTS	33
2.1. Most important developments in the banking sector	35
2.2. Banking interest rates	55
2.3. Microcredit financial institutions	58
2.4. Factoring companies	60
2.5. Companies for the purchase of receivables	61
2.6. Investment and Development Fund	61
3. TREASURY BILLS ISSUE	63
4. CAPITAL MARKET	67
5. FISCAL DEVELOPMENTS	73
5.1. Public finances of Montenegro	75
5.2. Budget of Montenegro	77
5.3. Local Self-Government	80
5.4. State funds	82
6. PUBLIC DEBT	85
6.1. Government debt	88
6.2. Domestic government debt	88
6.3. External government debt	89
6.4. Issued government guarantees	91
6.5. Government debt repayment	92
7. EXTERNAL SECTOR	93
7.1. Balance of payments	95
7.2. External debt	108
7.3. International investment position	110
8. INTERNATIONAL ECONOMY	113
8.1. Global economic and financial trends	115
8.2. Euro area	118
8.3. Region	120
9. IMPORTANT EVENTS	123
10. ANNEXES	127

REVIEW OF MACROECONOMIC INDICATORS

	2023	Q3 2024	%
REAL SECTOR DEVELOPMENTS			
GDP (in current prices. in EUR million) ¹	6,963.6	5,566.8	
Industrial output (compared to the same period the year before) ²	6.4	-6.0	
Production of forest assortments from state forests (compared to the same period the year before) ²	28.1	-53.8	
Construction (compared to the same period the year before-measured by effective working hours) ²	-4.0	1.5	
Employment			
Number of employed people (December, September)	246,449	258,102	
Number of unemployed people (December, September)	39,942	32,099	
Inflation rate			
Consumer prices, annual rate (December, September)	4.3	1.0	
Average salary without taxes and contributions (average salary for period) ²	792	840	6.06
MONETARY DEVELOPMENTS (in EUR million)³			
Total deposits	5,473.2	5,665.4	3.51
Nonfinancial sector deposits	1,757.1	1,764.8	0.44
Household deposits	1,900.8	2,044.3	7.55
General Government deposits	398.0	458.1	15.09
Central Government	246.8	256.1	3.77
Local Government	147.7	197.0	33.43
Social security funds	3.6	5.0	39.51
Financial sector deposits	44.6	41.8	-6.40
Deposits of nongovernment and other nonprofit organizations	82.5	87.9	6.56
Deposits of nonresidents	1,290.1	1,268.5	-1.67
Total loans	4,095.2	4,606.7	12.49
Loans to nonfinancial sector	1,310.6	1,441.6	9.99
Loans to households	1,689.9	1,884.4	11.51
Loans to General Government	311.9	260.4	-16.50
Central Government	284.2	236.3	-16.85
Local Government	27.6	24.0	-12.91
Social security funds	0.0	0.0	-
Loans to financial sector	43.3	59.5	37.32
Loans to nongovernment and other nonprofit organizations	7.0	5.9	-15.32
Loans to nonresidents	732.5	954.8	30.34
TREASURY BILLS ISSUE			
Average interest rates on 91-day T-bills. last recorded	3.75%		
Average interest rates on 182-day T-bills. last recorded	3.50%		
Average interest rates on 273-day T-bills. last recorded	4.00%		
CAPITAL MARKET			
Turnover in stock exchanges (in EUR million) ²			
Montenegro stock exchange	12.3	8.3	
Stock exchange indices			
MNSE10	1,063.32	1,049.84	-1.27
MONEX	15,583.13	15,868.13	1.83
FISCAL DEVELOPMENTS (in EUR million)²			
Current revenues ⁴	2,941.30	2,381.80	
Expenditures ⁴	2,900.06	2,264.09	
Surplus/deficit	41.25	117.71	
Foreign government debt (in EUR million)	3,517.29	4,046.07	15.03
Domestic government debt (in EUR million)	542.62	356.48	-34.30
Debt of the local government (in EUR million)	66.90	61.82	-7.59
EXTERNAL DEVELOPMENTS²			
Current account balance (in EUR million) ²	-791.31	-776.86	
Trade balance	-2,985.72	-2,494.19	
Balance of services	1,688.68	1,416.12	
% of trade deficit with other balances coverage	73.50	68.85	
Current account balance in % of GDP	-11.36	-13.96	

¹ Source: MONSTAT, preliminary data for GDP Q1 - Q3 2024

² Data for period I-XII 2023 and I-IX 2024.

³ As of June 2018, monetary statistics data are compiled in accordance with the new methodology (http://www.cbcg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_publikacije/metodologija_2018e.pdf).

⁴ Current revenues and expenditures of the Budget of Montenegro and state funds and local governments.

MACROECONOMIC ENVIRONMENT IN MONTENEGRO

Economic developments in Montenegro in the period January – September 2024 indicate a significantly more moderate economic growth of GDP compared to the previous year when it amounted to 6.3 percent. According to preliminary data from MONSTAT, real annual GDP growth amounted to 3.1 percent (4.4 percent in the first quarter, 2.7 percent in the second quarter, and 2.6 percent in the third quarter). Forecasts of international institutions regarding the real growth of Montenegro's GDP in 2024 range from 3.4 to 3.9 percent, while the Ministry of Finance predicts 3.8 percent and the Central Bank of Montenegro forecasts a 3.6 percent growth.

Available statistical indicators indicate positive results in the transport, trade and construction sectors in the first nine months of this year. However, a decline was seen in activities in tourism and forestry. A decline was also recorded in overall industrial production due to output decrease in the electricity, gas and steam supply sector. Nevertheless, economic growth also generated improvement in the labour market, with a significant employment increase and unemployment decline.

Prices in Montenegro grew at lower rates than in the previous year owing to the global slowdown in inflation, in particular in the European Union, as one of the most important foreign trade partners of Montenegro. According to MONSTAT data, consumer prices increased by an average of 3.9 percent year-over-year in the period January - September 2024. In September, prices were 1.0 percent higher year-on-year, while compared to end-2023 they rose 2.1 percent. Price increase was partially mitigated by administrative measures, namely by a temporary limitation of trade margins by the Government for a certain number of products of particular importance for the life and health of people.

Preliminary data from MONSTAT show that the annual growth was recorded in most modes of transport, with the largest increase being in air transport where passenger transport increased by 16.48 percent and freight transport by 13.17 percent. As for the construction sector, the value of completed construction works increased by 2.43 percent, while the number of effective working hours rose 1.47 percent. In the area of domestic retail trade, growth was recorded of 6.4 percent in constant prices and of 9.6 percent in current prices.

MONSTAT data indicate that industrial production recorded the annual decline of 6.0 percent in the reporting period, mainly due to a decrease in production in the electricity, gas and steam supply sector of 20.5 percent (which accounts for 42.3 percent of total industrial production). This

decline is a result of reduced production in power plants (lower electricity production due to low inflow and prolonged overhaul of the Pljevlja thermal power plant) but also of a high comparative base from the previous year. However, output increase was recorded in other industrial sectors of 8.1 percent in the mining and quarrying sector and 4.2 percent in manufacturing industry. The annual decline of 53.8 percent was also seen in forestry, as supported by data on the growth of production of forest assortments in state forests.

After significant results achieved in the previous year, tourism recorded a decline in the number of registered tourist arrivals and overnights. Preliminary MONSTAT data show that 2.3 tourists visited Montenegro in 2020, which a 1.06 percent decline year-on-year. Tourist overnights amounted to 13.85 million, which is a decrease of 5.28 percent. At the same time, the annual decrease in the number of foreign tourist arrivals was 0.81 percent, and a drop in the number of their overnight stays was 5.46 percent, which is a consequence of poorer results recorded in individual accommodation, while compared to the pre-crisis year of 2019, foreign tourist arrivals and overnights in collective accommodation rose by 0.27 and 13.65 percent, respectively.

Preliminary data indicate that the current account deficit amounted to 776.86 million euros in the first nine months of 2024, which represents the annual increase of 115.79%. The main cause of this growth is the increase of deficit in the goods account (due to an increase in domestic demand and a decrease in exports), then a deficit recorded in the primary income account (which had a surplus in the previous year), as well as a decrease in surplus in the services account. The financial account recorded an increase in net capital inflows, mainly due to an increase in net inflows based on direct and portfolio investments.

Foreign trade deficit reached 2,494.19 million euros in 2022, which is 11.82 percent more than in the previous year. Imports of goods increased by 6.10 percent, while their export decreased by 16.79 percent, mostly due to a decrease in the export of electricity and non-ferrous metals. The growth in imports was mainly influenced by an increase in the import of road vehicles, especially used vehicles, which is partly a result of the increase in the prices of this type of vehicles, but also of a growing demand due to the amended regulations governing the import of used vehicles.

The services account recorded a surplus of 1,416.12 million euros, which is a drop of 56.60 million euros year-over-year, as a result of greater nominal decline in income from services (which amounted to 2,185.60 million euros) over expenditure for services (which totalled 769.48 million euros). Estimated travel - tourism revenues amounted to 1,311.67 million euros or 3.64 percent less than in the comparative nine-month period last year, as a result of a drop in foreign tourist overnights (as per MONSTAT data) and also due to the base effect considering the record revenues in 2023. The primary income account recorded a deficit of 17.02 million euros, as a result of a significant increase in expenditures for international investments (of 67.31 percent), while in the same period of the previous year, this account recorded a surplus of 83.22 million euros. On the other hand, the secondary income account recorded a surplus of 318.24 million euros, which is a growth of 1.18% percent recorded owing to an increase in inflows from personal and other current transfers.

Foreign direct investments (FDI) kept recording higher inflows. Net FDI inflow reached 372.57 million euros, which is an increase of 18.76 percent in relation to the comparative nine-month period last year. Total FDI inflow amounted to 657.67 million euros (a growth of 6.71 percent) and this was largely due to an increase in inflows from investments in companies and banks, which amounted to 100.05 million euros (a growth of 44.02 percent), as well as inflows from investment

in intercompany debt of 216.39 million euros (a 14.25 percent increase). Investments in real estate amounted to 320.23 million euros, which is a decline of 4.46 percent, while the inflow from residents' withdrawal of investments from abroad amounted to 21 million euros. Total FDI outflow amounted to 285.10 million euros or 8 percent less than in the comparative nine-month period last year.

Preliminary data indicate that total external debt of Montenegro amounted to 9,412.69 million euros at the end of the third quarter of 2024, which is 343.64 million euros more than at end-2023, mainly as a result of increased debt of the public sector. In the structure of Montenegro's external debt, the public sector debt accounted for 44.06 percent and the private debt accounted for the remainder 55.94 percent. The currency structure of the total foreign debt shows the major share of euro debts, 95 percent, which makes country 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).

The main labour market indicators for the first nine months of 2024 point to the continuation of the positive trend from the previous period this year. MONSTAT data indicates that the average number of employees was 257,304, which represents a growth of 5.59 percent on the annual level. Increase in the number of employees was recorded in all sectors, with the highest growth being in the real estate sector (12.36 percent) and construction (12.10 percent), and the lowest in public administration and defence; compulsory social security (0.42 percent) and administrative and ancillary service activities (2.10 percent). At the same time, the number of unemployed persons on the records of the Employment Agency of Montenegro averaged at 35,351 or 14.49 percent less year-over-year. The same source shows that the registered unemployment rate amounted to 11.06 percent in September 2024 and it was 2.08 pp lower year-over-year. MONSTAT data shows that the uptrend in earnings continued in the reporting period. The average gross earnings amounted to 1,052 euros, while the average earnings without taxes and contributions stood at 840 euros, both being higher year-on-year by 7.46 and 6.73 percent, respectively.

At the same time, the government budget saw an increase in the collection of budget revenues and the realisation of expenditure compared to the same period of the previous year, while compared to the budget plan, revenues recorded an increase and the expenditures decreased. It is estimated that the growth in revenue collection is mainly the result of increased revenue from value added tax collection. Also, a significant annual growth was achieved in the collection of corporate income tax, primarily due to improved tax discipline and the results achieved by business entities in the previous year.

Increased expenditures for pension and disability insurance transfers, as a result of increase in the minimum pension, caused an increase in expenditures at the annual level, while a decline in realised over planned expenditures was largely a consequence of a decrease in the expenditure for transfers to institutions, individuals, NGOs, and the public sector. The realized revenues and expenditures in the first nine months of 2024 resulted in a cash budget surplus of 86.57 million euros, which accounted for 1.17 percent of the estimated GDP for 2024.

At end-September 2024, according to the Ministry of Finance preliminary data, Montenegro's gross government debt amounted to 4,464.37 million euros or 60.19% of GDP, which represents an increase of 8.18 percent compared to end-2023 as a result of growth the Eurobond issue in March. Of the total amount of gross government debt, 356.48 million euros or 4.81 percent of GDP referred

to the domestic debt, and 4,046.07 million euros or 54.55 percent referred to the external debt, while the debt of local self-governments accounted for 61.82 million euros or 0.83 percent of GDP. Net public debt totalled 3,846,43 million euros or 51.86 percent of GDP. The level of government and public debt, especially its external segment, still represents one of the biggest challenges for the future fiscal policy as a large amount of Eurobonds will become due in the near future.

During the first nine months of 2024, the key banking indicators continued to record annual growth. Banks' liquid assets kept recording high levels and reached 1,533.08 million euros at the end of September 2024. The capital adequacy ratio was above the statutory minimum and it stood at 19.80% at the end of the third quarter this year.

Total assets and liabilities and capital of banks amounted to 6,978.74 million euros, which represents an increase of 199.85 million euros. Total loans amounted to 4,606.68 million euros, with an average growth of 1.32 percent per month, while total deposits amounted to 5,665.40 million euros and they grew at an average monthly rate of 0.39 percent. During the first nine months of this year, non-performing loans decreased by an average rate of 1.29 percent per month, which contributed to a decrease in the share of non-performing loans in total loans to 3.96 percent. Banks recorded a positive financial result in the total amount of 136.34 million euros, which represents the annual increase of 23.94 million euros or 21.29 percent.

The weighted average lending effective interest rate (WALEIR) on total loans amounted to 6.59 percent at the end of September this year. The WALEIR on new loans was 6.64 percent, which is a decrease of 0.41 pp. The WALEIR on new retail loans amounted to 7.55 percent, which is a decrease of 1.24 pp compared to the first quarter of this year. This is largely a result of the Central Bank of Montenegro's initiative for banking interest rates decline on retail loans launched in March 2024. In September, the weighted average deposit effective interest rate stood at 0.25 percent and it was 0.01 pp and 0.03 pp higher year-over-year and compared to the end of the previous year, respectively.

At end-September this year, total MFIs' assets and liabilities amounted to 101.21 million euros, which is a 19.66 percent increase year-on-year and a 2.24 percent growth compared to the end of the previous year. However, the MFIs' financial result in the first nine months of 2024 dropped by 14.48 percent year-over-year and amounted to 3.07 million euros. Total assets and liabilities of the Investment and Development Fund (IDF) amounted to 406.33 million euros, showing a 5.50 percent decline year-over-year and a 6.31 percent decrease compared to end-2023. The financial result of the IDF amounted to 8.94 million euros, which is the annual growth of 42.60 percent. Total assets and liabilities and capital of factoring companies amounted to 9.58 million euros, showing a 48.43 growth year-over-year and an 18.21 percent increase compared to end-2023. Total assets and liabilities of the companies for purchase of receivables amounted to 8.45 million euros, showing a 2.74 percent increase year-over-year and a 1.94 percent growth compared to end-2023.