



Macroeconomic Report of the Central Bank of Montenegro Q2 2023

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REVIEW OF MACROECONOMIC DEVELOPMENTS

	2022	Q2 2023	%
REAL SECTOR DEVELOPMENTS			
GDP (in current prices in EUR million) ¹	5,924.02	6,447.10	
Industrial output (compared to the same period the year before) ²	-3.3	4.5	
Production of forest assortments in state forest (compared to the same period the year before) ²	78.3	53.7	
Construction (compared to the same period the year before-measured by effective working hours) ²	-2.9	-3.4	
Employment			
Number of employed people (December 2022 and June 2023)	227,151	252,734	
Number of unemployed people (December 2022 and June 2023)	46,596	40,304	
Inflation rate			
Consumer prices, annual rate (December 2022 and June 2023)	17.2	7.5	
Average salary without taxes and contributions (average salary for period) ²	712	781	9.69
MONETARY DEVELOPMENTS (EUR million)³			
Total deposits	5,224.32	5,270.46	0.88
Nonfinancial sector deposits	1,766.65	1,786.40	1.12
Household deposits	1,701.37	1,727.52	1.54
General Government deposits	309.09	320.29	3.62
Central Government	198.93	206.82	3.97
Local Government	104.39	106.66	2.17
Social security funds	5.76	6.81	18.12
Financial sector deposits	57.72	52.83	-8.46
Deposits - other	1,389.50	1,383.42	-0.44
Total loans	3,660.12	3,984.17	8.85
Loans to nonfinancial sector	1,261.58	1,329.58	5.39
Loans to households	1,555.08	1,619.27	4.13
Loans to General Government	256.39	234.47	-8.55
Central Government	223.46	203.27	-9.03
Local Government	32.94	31.21	-5.25
Social security funds	-	-	0.00
Loans to financial sector	22.16	36.51	64.74
Other loans	564.91	764.34	35.30
TREASURY BILLS ISSUE			
Average interest rates on 91-day T-bills, last recorded			
Average interest rates on 182-day T-bills, last recorded	3.97%	3.97%	
CAPITAL MARKET			
Turnover in stock exchanges (EUR million) ²			
Montenegro stock exchange	78.2	4.9	
Stock exchange indices			
MNSE10	1,009.24	1,002.02	-0.72
MONEX	14,141.35	14,695.71	3.92
FISCAL DEVELOPMENTS (EUR million)			
Current revenues ⁴	2,299.23	1,382.32	
Expenditures ⁴	2,598.67	1,209.44	
Surplus/deficit ⁴	-299.44	172.88	
Foreign government debt (in EUR million) ⁵	3,557.56	3,613.40	1.57
Domestic government debt (in EUR million) ⁵	468.77	411.07	-12.31
Debt of the local governments (in EUR million) ⁵	75.89		
EXTERNAL DEVELOPMENTS²			
Current account balance (EUR million) ²	-766.04	-538.96	
Trade balance	-2,670.10	-1,361.35	
Balance of services	1,317.48	526.11	
% of trade deficit/other balances coverage	71.31	60.41	
Current account balance in % of GDP	-12.93	-8.36	

¹ Source: For 2022 - final MONSTAT data; for 2023 - Ministry of Finance projections – Macroeconomic and Fiscal Policy Guidelines 2023-2026, July 2023.

² Data for period I-XII 2022 and I-VI 2023.

³ As of June 2018, monetary statistics data are compiled in accordance with the new methodology (http://www.cbcb.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.

⁵ In accordance with the new Law on Budget and Fiscal Responsibility, which was adopted in 2014, the structure of the public debt has been changed. Public debt is defined as debt of the central government (government debt) and debt of the local governments. Debt of the local governments is excluded from the domestic debt structure, while on the other hand, the amount that relates to the liabilities toward legal entities and companies are included in the domestic debt structure. In line with the new Law, the quarterly reports present government debt, while the annual reports present public debt.

MACROECONOMIC ENVIRONMENT IN MONTENEGRO IN THE FIRST HALF OF 2023

The Montenegrin economy continued to grow during Q2 2023, for which the estimated real GDP growth is 6.9%. After correcting the growth estimate for Q1 upwards by 0.1 pp to 6.2%, the estimated GDP growth in H1 was 6.6%. A significant increase in economic activities is also visible from short-term statistical indicators pointing to a substantial increase in tourist arrivals and overnights, industrial output growth in the electricity, gas and steam supply sector, most types of transport, and growth in trade and forestry activities. At the same time, a decrease in economic activities was recorded in some economic industries, namely construction, manufacturing, and mining and quarrying.

In the reporting period, prices in Montenegro grew at lower rates than in the previous year due to the global slowdown of inflation resulting from central banks' restrictive monetary policy compared to the previous year-end and the energy market stabilisation. To moderate price growth, Montenegro's Government launched the "STOP INFLATION" action, entailing the formation of the so-called "anti-inflation basket" to reduce the pressure on citizens' living standards and contribute to stabilising the prices of staple food. MONSTAT data show that consumer prices were higher on average by 11.0% in January - June 2023 compared year-on-year or 7.5% in June compared to June 2022 and 1.9% compared to the end of 2022.

Tourism continued its positive trend despite sustained expectations due to growing living expenses at issuing tourist markets. Preliminary MONSTAT data reveal that 878,019 tourists visited Montenegro in the first six months of 2023 who recorded 5.44 million overnights, which is a respective increase of 40.53% and even 75.85% year-over-year. The increase rates of foreign tourists arrivals and overnights were even higher (43.17% and 80.25%, respectively), while the number of foreign tourist overnights exceeded the data from the corresponding period of 2019 by even 59.22%. During the first six months of 2023, most modes of transport recorded the annual growth, with the largest increase being recorded in airline passenger and freight transport of 43.05% and 42.19%, respectively, while railway cargo transport saw a 38.00% decline. The annual growth was also achieved in forestry, which is confirmed by the data on the growth of production of forest assortments in state forests of 53.7%. The year-over-year increase of 10.3% was seen in retail trade, expressed in constant prices (21.0% in current prices).

Total industrial production recorded the annual growth of 4.5%, mostly owing to production increase in the electricity, gas and steam supply sector of 37.8% as a result of good hydrological situation. Output declines of 14.9% and 6.6% was recorded in manufacturing industry and the mining

and quarrying sector, respectively. Preliminary MONSTAT data indicate that construction recorded the year-over-year decline in the value of executed construction works and effective working hours of 9.51% and 3.41%, respectively.

Montenegro's balance of payments recorded an insignificant decline in current account deficit of 2.24% compared y-o-y due to the surplus at the accounts of services, primary income and secondary income. In the period January-June 2023, Montenegro's current account deficit amounted to 538.96 million euros, primarily due to increased deficit on the goods account due to a significant increase in import prices and domestic demand. The financial account recorded a decrease in net inflow of capital as a result of decline in net FDI inflow, while portfolio and other investments recorded net outflow.

Foreign trade deficit amounted to 1,361.35 million euros in the reporting period, being 18.02% higher year-over-year due to higher value of import. The visible imports of goods amounted to 1,758.44 million euros and was higher by 192.08 million euros or 12.26% (primarily due to the increased imports of road vehicles and industrial machines for general use). The visible exports of goods amounted to 397.09 million euros and it decreased by 15.81 million or 3.83% lower (primarily due to the drop in exports of non-ferrous metals and the category of metalliferous ores and metal scrap). Total international visible trade increased by 9.32%.

The services account recorded a surplus of 526.11 million euros or 213.39 million euros more year-over-year, primarily owing to growth in tourism. Total revenues from services reached 1,055.85 million euros (a 43.94% increase) while expenses for services amounted to 529.74 million euros (a 25.88% growth). Estimated revenues from travel-tourism amounted to 452.61 million euros, which is 90.23% more than in the comparative period and 77.47% more compared to record in 2019 due to increased tourist spending caused by increased number of foreign tourists and inflation effects. Revenues from transport services amounted to 345.68 million euros and they rose 21.20%. The primary and secondary income accounts recorded respective surpluses of 69.81 million euros and 226.48 million euros, which is the year-over-year decrease of 2.72% and a 4.04% increase, respectively.

Net FDI inflow reached 267.07 million euros, which is 26.37% less than in the comparative six-month period last year. Total FDI inflow amounted to 462 million euros, which is a 10.27% decline year-over-year and is mostly a result of reduced inflow from foreign investments in companies and banks (a 44.99% decline). Inflow from foreign investment withdrawals amounted to 28.81 million euros (a 39.29% decline), while FDI inflow in the form of intercompany debt amounted to 158.46 million euros (a 7.53% decrease). The structure of equity investments shows that investments in companies and banks amounted to 51.97 million euros (42.50 million euros decrease), whereas investments in real estate reached 222.76 million euros (a 10.52% growth). Total FDI outflow amounted to 194.93 million euros or 28.11% more than in the comparative period.

Preliminary data indicates that the total foreign debt of Montenegro amounted to 9,167.79 million euros at end-Q2 2023, which is 205.94 million euros or 2.20% less year-over-year, mainly as a result of the reduction of the external debt of both public and private sectors. In the structure of Montenegro's external debt, the public sector debt accounted for 40.53% and the private debt accounted for the remaining 59.47%.

An improvement in the labour market was also recorded, with a significant employment increase and an unemployment decline. MONSTAT data reveal that the average number of employees in the

first six months amounted to 238,799, being 9.28% higher year-on-year. The highest employment growth was seen in information and communications (46.28%) and real estate activities (32.21%), and the lowest in transport and warehousing (0.09%). As for unemployment, the Employment Agency's records indicate that this number averaged at 42,931 in the reporting period, which is 16.75% less year-over-year. The same source shows that the registered unemployment rate in June amounted to 17.37% and it was 2.53 pp lower year-over-year.

The wages and salaries increase trend continued, mostly as a result of the budget-planned wages and salaries increase in the public sector. In the first six months of 2023, MONSTAT data indicate that the average gross salary in Montenegro amounted to 971 euros, while the average salary without taxes and contributions stood at 781 euros, with both showing the year-on-year increase of 10.84% and 10.94%, respectively.

In H1 2023, the government budget saw a significantly higher increase in the collection of budget revenues over consolidated expenditure compared to the same period of the previous year, while compared to the budget plan, revenues recorded an increase and expenditures decreased.

The growth in revenue collection resulted from an increased economic activity, improved tax discipline, successful application of the Law on Reprogramming of Tax Claims, withdrawing the application of the Decision on decreasing the excise duty amount for turnover of unleaded petrol and gas oils, increased excise duties on tobacco and tobacco products, increase in salary coefficient for employees in the public sector, growth in consumer prices, termination of hedging arrangement from 2021, transfer of funds from the implementation of the "Economic Citizenship" project, and the withdrawal of the EU funds for a direct budget support for energy efficiency. Increased expenditure for gross earnings and contributions paid by the employer and transfers based on the exercising of social welfare rights and pension and disability insurance resulted in the growth of consolidated budget expenditure at the annual level, while the non-implementation of capital projects had the greatest impact on the reduction of realised over planned expenditure under the 2023 Budget. Based on realised revenues and expenses, the budget cash surplus was recorded in the amount of 167.82 million euros or 2.60% of GDP.

The Ministry of Finance data indicate that Montenegro's gross government debt amounted to 4,024.47 million euros or 62.42% of GDP at end-June 2023, standing at the 2022 year-end debt, and representing a decrease of 56.09 million euros or 1.35% in relation to Q1 mainly due to the Treasury bills repayment. Of the total amount of gross government debt, 411.07 million euros or 6.38% of GDP referred to the domestic debt, while the 3,613.40 million euros or 56.05% of GDP referred to the external debt. The level of government debt, especially its external segment, still represents one of the biggest challenges for the future fiscal policy. The level of government debt, especially its external segment, still represents one of the biggest challenges for the future fiscal policy.

During the first six months of 2023, the banking sector operated with safety and stability. Banks' assets increased inter alia due to the significant increase in banks' investments into securities. Still, more significant effect was from loans growth, the most prominent in loans to non-residents and households, while cash loans and loans for liquidity accounted for the largest portion in total loans. On the liabilities and capital side, banks recorded further increase in liquid assets growth primarily from deposits growth while borrowings declined. At end-June 2023, banks' liquid assets amounted to 1,690,46 million euros, which is 13.52% more year-on-year yet 14.97% less than at end-2022. Deposits increased by 18.07% (to 5,270.46 million euros) compared to year-on-year, while compared to the end of the previous year they were 0.88% higher. Total banking loans in-

creased 12.61% year-over-year and they reached 3,984.17 million euros, while compared to the end of the previous year they rose 8.85%. Non-performing loans amounted to 208.17 million euros or 5.62% of total loans (a decrease in the share of 1.06 pp on the annual level and 0.49 pp compared to end-2022). In the first six months of the current year, the banking sector recorded a positive financial result in the total amount of 66.42 million euros, which is the year-on-year increase of 112.47%.

The trend in lending interest rates growth started in H2 2022 continued in the first six months of 2023 mainly reflecting from trends at the international financial markets. At end-June 2023, the weighted average effective interest rate on total loans granted amounted to 6.34% being 0.77 pp higher y-o-y and 0.42 higher compared to end-2021. At end-June 2023, the weighted average deposit effective interest rate was 0.28% and it was 0.02 pp lower year-over-year and 0.02 pp higher compared to the end of the previous year.

Total assets and liabilities of microcredit financial institutions (MFI) rose 4.22% to 84.68 million euros year-on-year and 13.26% compared to the end of 2022. The financial result of MFIs amounted to 1.66 million euros for the first six months of the current year and it was 22.01% lower year-over-year. Total assets and liabilities of factoring companies amounted to 8.99 million euros, showing a 22.93% y-o-y growth and a 14.93% increase compared to end-2022. Companies for purchase of receivables had the assets and liabilities of 9.16% million euros, showing a decrease of 3.00 million euros year-on-year and 2.25% decline compared to the end of the previous year.