



Macroeconomic Report of the Central Bank of Montenegro 1/2025

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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 Marđonović

TRANSLATED BY Department for Financial Stability, Research and Statistics

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REVIEW OF MACROECONOMIC DEVELOPMENTS

	2024	Q1 2025	%
REAL SECTOR DEVELOPMENTS			
GDP (in current prices in EUR million) ¹	7,459.2	1,433.3	
Industrial output (compared to the same period the year before) ²	0.2	-4.2	
Production of forest assortments in state forests (compared to the same period the year before) ²	-38.0	103.0	
Construction (compared to the same period the year before-measured by effective working hours) ²	1.6	0.7	
Employment			
Number of employed people (December 2024 and March 2025)	257,778	262,737	
Number of unemployed people (December 2024 and March 2025)	33,037	29,970	
Inflation rate			
Consumer prices, annual rate (December 2024 and March 2025)	2.1	2.6	
Average earnings without taxes and contributions (average for period) ²	876	1,003	14.50
MONETARY DEVELOPMENTS (EUR million)³			
Total deposits	5,838.8	5,630.7	-3.56
Nonfinancial sector deposit	1,733.4	1,586.3	-8.48
Household deposit	2,154.9	2,155.9	0.05
General Government deposits	498.6	477.7	-4.19
Central Government	325.4	301.5	-7.33
Local Government	168.5	170.6	1.27
Social security funds	4.7	5.5	16.99
Financial sector deposits	56.2	64.6	15.07
Deposits of Nongovernment and other nonprofit organizations	87.2	88.6	1.66
Deposits of non-residents	1,308.6	1,257.5	-3.90
Total loans	4,639.7	4,859.1	4.73
Loans to nonfinancial sector	1,546.4	1,623.5	4.98
Loans to households	1,969.7	2,070.1	5.09
Loans to General Government	224.3	215.3	-4.04
Central Government	202.1	193.9	-4.06
Local Government	22.3	21.4	-3.90
Social security funds	0.0	0.0	0.00
Loans to financial sector	54.3	62.3	14.70
Loans to Nongovernment and other nonprofit organizations	4.8	4.5	-6.26
Loans to non-residents	840.1	883.5	5.16
TREASURY BILLS ISSUE			
Average interest rates on 91-day T-bills, last recorded			
Average interest rates on 182-day T-bills, last recorded			
Average interest rates on 273-day T-bills, last recorded			
CAPITAL MARKET			
Turnover in stock exchanges (EUR million) ²			
Montenegro stock exchange	9.7	1.6	
Stock exchange indices			
MNSE10	1,085.52	1,173.35	8.09
MONEX	16,433.46	17,559.71	6.85
FISCAL DEVELOPMENTS⁴ (EUR million)			
Current revenues ⁴	3,188.68	666.22	
Expenses ⁴	3,423.41	747.35	
Surplus/deficit ⁴	-234.73	-81.13	
Foreign government debt (in EUR million) ⁵	4,183.48	4,129.75	-1.28
Domestic government debt (in EUR million) ⁵	331.30	321.06	-3.09
Debt of the local governments (in EUR million) ⁵	59.06	57.55	-2.56
EXTERNAL DEVELOPMENTS⁵			
Current account balance (EUR million) ²	-1,307.81	-504.66	
Trade balance	-3,301.13	-746.23	
Balance of services	1,583.51	116.78	
% of trade deficit/other balances coverage	60.38	32.37	
Current account balance in % of GDP	-17.53	-35.21	

¹ Source: MONSTAT, preliminary data.

² Data for period I-XII 2024 and I-III 2025.

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_publicacije/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

Economic developments in Montenegro during the first quarter of 2025 were marked by a moderate growth compared to the same period of the previous year. According to preliminary data published by MONSTAT, real GDP growth amounted to 2.8%, down from 6.3% recorded in the same period in 2024. This growth was primarily driven by increased household consumption, with a rise observed in gross investments in fixed assets as well. Projections suggest that economic growth for the remainder of the year will continue to be supported mainly by private consumption and investment, while the export of services is expected to grow at a moderate pace, and goods exports are expected to decline. This negative trend in exports is largely attributed to a projected drop in electricity production, resulting from the overhaul of the Pljevlja thermal power plant. International institutions forecast Montenegro's real GDP growth in 2025 to range between 2.6% and 3.2%, while the Central Bank of Montenegro estimates a growth of 2.7%.

Montenegro experienced a continued decline in inflation compared to the same period in 2024, mirroring trends observed in the European Union. According to MONSTAT data, consumer prices increased by an average of 2.7% year-on-year during the first quarter of 2025. In March 2025, prices were 2.6% higher year-on-year and 1.9% higher compared to December 2024.

Observed by individual branches of the economy, growth was seen in construction, retail trade, and forestry. In construction, the value of completed construction works increased by 1.47% in the first quarter, while the number of effective working hours rose by 0.67%. In the area of retail trade, there was a growth of 4.8% in constant prices and a 6.9% increase in current prices. Forestry also recorded growth, as confirmed by the data on the increase in production of forest assortments in state forests of 103.0%.

Most modes of transport experienced a decline, while total industrial production decreased, primarily due to a drop in electricity supply. MONSTAT data indicate that the annual production in this sector, which accounts for 35.8% of total industrial production, fell by 13.4%, leading to a 4.2% decline in overall industrial output, despite an 11.2% increase in mining and quarrying and a 1.9% rise in the manufacturing industry. In the transport sector, the largest declines were recorded in railway passenger transport, down 12.58%, and in freight transport at airports, down 11.85%, while growth was recorded only at Tivat Airport, which saw the year-on-year increase in passenger transport of 5.49%.

Montenegro's current account deficit increased, primarily due to a widening trade deficit. Preliminary data show that the current account deficit amounted to 504.66 million euros in the first three months of 2025, which is the year-on-year increase of 14.49%. The foreign trade deficit reached

746.23 million euros, an increase of 9.29% compared to the same period of the previous year. The deterioration of the trade balance is the result of modest growth in goods exports, amounting to only 3.01% (primarily from the export of electricity and mineral raw materials), alongside a significant increase in goods imports of 8.12% (mainly due to imports of electricity and road vehicles, particularly used vehicles, whose import value rose due to increased prices and growing demand for this type of vehicles).

The services account in the balance of payments recorded a surplus at approximately the same level as in the comparable period of the previous year, while the primary income account surplus increased and the secondary income account surplus declined. The surplus on the services account amounted to 116.78 million euros, as a result of balanced growth in service revenues and expenditures, with revenues totalling 365.49 million euros and expenditures amounting to 248.71 million euros. The primary income account recorded a surplus of 29.88 million euros, representing the year-on-year increase of 15.82%, while the surplus on the secondary income account amounted to 94.91 million euros, reflecting the year-over-year decline of 4.38%.

Foreign direct investment (FDI) inflows continued to grow, with a net inflow of 122.24 million euros, representing the year-on-year increase of 3.98%. Total FDI inflow amounted to 211.76 million euros, an increase of 1.40%, with the largest contribution coming from investments in real estate in the amount of 113.51 million euros, which grew by 21%. Investments in companies and banks declined to 21.68 million euros, representing a drop of 39.99%, while intercompany debt inflow amounted to 70.11 million euros, a decrease of 7.03%. Net FDI outflow reached 89.52 million euros, which is 1.92% less than in the comparative six-month period last year.

According to preliminary data, Montenegro's gross external debt at the end of the first quarter of 2025 decreased by 124.54 million euros compared to the end of 2024. Debt reduction was recorded in both public and private sectors, with that of the public sector accounting for 44.34% and private sector for the remainder 55.66% of total external debt. Given that the euro dominates the currency structure, with approximately 95% share, foreign exchange risk is significantly reduced. The structure of the external debt of the private sector according to maturity is favourable considering that over 95% is of a long-term nature (not including deposits).

Preliminary data show a deterioration in the net international investment position. At the end of Q1 2025, the net international investment position (IIP) of Montenegro was -8,466.81 million euros, with total resident claims on non-residents amounting to 5,250.53 million euros, and liabilities amounting to 13,717.34 million euros. Compared to the end of the previous year, the negative net investment position increased by 479.57 million euros, due to a reduction in claims of 578.64 million euros, while a slight decrease in liabilities of 99.07 million euros partially offset the negative effect. Observing the net positions by investment instruments (assets minus liabilities), preliminary data indicate that other investments recorded the year-over-year increase of 191.01 million euros, while negative net positions of portfolio investments and FDI fell by 63.40 million euros and 61.90 million euros, respectively.

Key labour market indicators point to a continued positive trend in employment and a decline in unemployment in the first quarter of 2025. According to MONSTAT data, the average number of employed persons amounted to 260,801, which represents the year-on-year increase of 4.79%. Growth in employment was recorded in most sectors, with the highest increases observed in real estate activities (11.79%) and construction (11.38%). The smallest growth was recorded in public administration and defence, compulsory social security (0.31%), and human health and social

work activities (1.35%). The information and communication sector and the mining and quarrying sector registered slight declines of 2.44% and 1.89%, respectively. The number of registered unemployed persons decreased by 18.90% year-on-year, averaging at 30,629, while the registered unemployment rate at the end of March 2025 fell to 10.24%, which is 2.64 percentage points lower compared to the same month of the previous year.

According to MONSTAT data, the trend of wage growth continued. The average gross wage amounted to 1,196 euros, while the average net wage was 1,003 euros, both rising annually by 16.46% and 22.02%, respectively. This growth is largely the result of wage increases implemented from October 2024, supported by the measures outlined in Montenegro's Fiscal Strategy for the period 2024–2027.

In the first quarter of 2025, the government budget and public finances saw higher execution of budget expenditures and public spending compared to the same period of the previous year, while revenues remained at approximately the same level, resulting in both budget and public sector deficits. The most significant positive deviation on the revenue side was recorded in value added tax, primarily due to increased consumption. At the same time, the annual increase in realized expenditures was mostly driven by higher spending on pension and disability insurance entitlements and increased interest expenses. According to the Ministry of Finance, based on realized revenues and expenditures, a cash budget deficit of 63.96 million euros was recorded in the first quarter of 2025, which accounts for 0.81% of the projected GDP for the year. The budget deficit amounted to 81.13 million euros and it accounted for 1.02% of GDP.

The level of gross public debt, as well as its share in projected GDP, was reduced. According to data from the Ministry of Finance, Montenegro's gross public debt at the end of March 2025 amounted to 4.51 billion euros or 56.93% of GDP, reflecting a decrease of 1.43% compared to the end of the previous year, as a result of regular repayment of maturing debt obligations. Of the total amount of gross government debt, 321.06 million euros or 4.05% of GDP referred to the national debt, 4.13 million euros or 52.15% referred to the external debt, and the debt of local self-governments accounted for 57.55 million euros or 0.73%. Net public debt totalled 4.21 billion euros or 53.15% of GDP. Despite the recorded decrease, the level of public debt — especially its external component — remains a challenge for future fiscal policy due to the upcoming maturities of large amounts of Eurobonds.

During the observed period, the banking sector remained stable, well-capitalized, and profitable, continuing to be the most resilient segment of Montenegro's economy. At end-March 2025, liquid assets of banks amounted to 1,276.56 million euros, with the capital adequacy ratio standing at 20.14%. The total assets of the banking sector amounted to 7,136.19 million euros, representing an annual increase of 7.78%, although a decline of 1.58% was recorded compared to the end of the previous year. Total loans amounted to 4,859.13 million euros and increased during the first quarter at an average monthly rate of 1.55%, while total deposits amounted to 5,630.74 million euros, recording an average monthly decline of 1.20%. The share of non-performing loans fell to 3.16%, which is 1.77 pp lower year-on-year. The banking sector recorded a positive financial result in the total amount of 34.17 million euros, which is the year-on-year increase of 11.63%.

In the first quarter of 2025, the downward trend in the weighted average lending interest rate on new loans that had begun the previous year continued in the reporting period, while the interest rate on deposits recorded a slight increase compared to the end of the previous year. The weighted average effective lending interest rate (WAEIR) on total loans stood at 6.41% at the end

of March 2025. The WAEIR on new loans was 5.98%, reflecting the year-on-year decline of 1.45 pp. The WAEIR on new retail loans was 6.98%, down by 1.81 pp compared to the first quarter of 2024, and this decline was partly the result of the continued interest rate reduction initiative on these loans launched by the CBCG in March 2024 and supported by all Montenegrin banks. Additional factors contributing to the decline in the WAEIR on new loans include the stabilisation of benchmark market interest rates and easing pressures in international capital markets. At end-March 2025, the weighted average deposit effective interest rate was 0.27% and it remained unchanged year-over-year yet 0.02 pp higher compared to the end of the previous year.

During the reporting period, some financial service providers recorded significant growth in both total assets and financial results. At end-March this year, total assets and liabilities of microfinance institutions (MFIs) amounted to 120.80 million euros, which is a 26.88% increase year-on-year and a 8.76% growth compared to the end of the previous year. The financial result of MFIs during the first three months of 2025 amounted to 1.24 million euros, marking the year-on-year increase of 27.62%. Total assets and liabilities of factoring companies amounted to 11.90 million euros, which is a 49.10% increase year-on-year and a 4.62% growth compared to the end of 2024. On the other hand, companies for the purchase of receivables had the assets and liabilities worth 8.14 million euros, dropping by 2.55% at the annual level and 0.71% compared to the end of the previous year. Total assets and liabilities of the Development Bank amounted to 405.66 million euros, which is a 4.47% decline year-on-year and a 3.30% decrease compared to the end of the previous year. The Development Bank reported a financial result of 2.42 million euros, which is a decrease of 24.16% year-on-year.