



MONTENEGRO
MINISTRY OF FINANCE
Department for Economic Policy and Development

MONTHLY MACROECONOMIC INDICATORS

August 2012

KEY NOTES

Tourism records growth for 6% during first 7 months, generating growth of other services and employment.

Snow and drought are main causes of prices' growth both of local and imported food during the first 7 months.

22,5 million € budget surplus was accomplished in July.

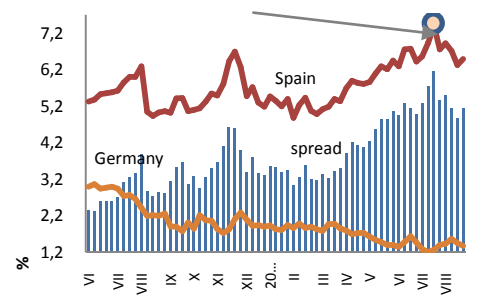


1. International Environment

Eurozone countries in crisis and having the decline of economic activities (including Spain and Italy) pay **unsustainably high indebtedness rates, while countries like Germany, France, and Denmark etc have negative real indebtedness' rates.** This means investors pay to those countries to borrow. High indebtedness' interest rates in countries the most impacted by crisis have its negative consequences on real sector. Thus, current indebtedness' rates of Spanish and Italian companies are around 6,5%, while German ones pay significantly lower rates of 4% in average annually. It certainly additionally deepens the competitiveness gap and makes maintenance of joint currency more complex. *Market composite index* (managers' expectations) in August declined further and was 46,3 in comparison to July index which was 46,5. Index value below 50 implies fall of economic activity. In this case, for two months of third quarter it cause GDP decline between 0,5 and 0,6%. Inflation in Eurozone in August grew from 2,4% to 2,6% due to growth of energy generating products' price growth and further inflation growth is expected in September. Unemployment grew to 11,3% in July 2012 as a result of economic activity fall in almost all countries of Eurozone periphery. Price of Brent Crude oil vary around high level of 115\$/barrel, which affects the inflation growth through growth high retail sale prices of fuel.

10 year bond interest rates

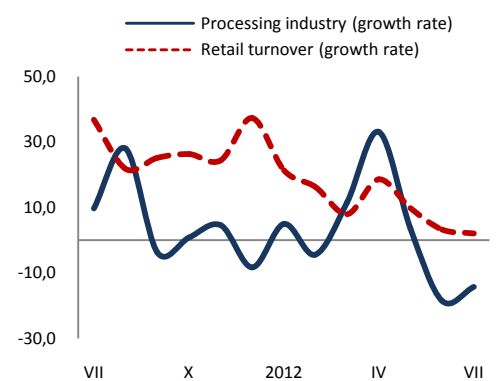
After maximal Spanish bond price in the late July 2012, there was a sharp drop after the ECB announcement that they will "take all the necessary measures in order to protect Euro"



2. Real Sector

Tourism records growth over the expectations, while industrial production records fall due to fall in energy sector. Reason for fall of *industrial production* by 6,7% in January-July 2012 period in comparison to the same period of last year is bad weather during first quarter and regular overhaul of Thermal plant in second. This caused decline of electricity production by 17,4% and stone and ore mining by 23,3%. However, in July *production of electric energy* recorded annual growth by 31,7%, due to both better performances of Thermal plant after overhaul and low basis of comparison in July 2011. Processing industry records slowing of growth from accomplished 1,3% January-July 2012 period in comparison to the same period of last year due to decline of basic metals' production by 4,8% and decline of food production by 1,6%. Only in July, basic metals' production was 25% lower than in July 2011 due to undelivered electric energy to KAP because of huge debts to EPCG. In pharmaceutical industry there is still high growth for 47% (period-to-period) due to increase of production volume and low comparative basis in last year. 4,6% more tourist have visited Montenegro during seven months of 2012 and accomplished 6,1% more overnight stays in comparison to the same period last year which impacted growth of retail sale for 10,1%. Lower activity in construction sector resulted from lower demand due to low credit activities of banks and low investments. Thus value of construction works in second quarter is 23,7% lower in comparison to 2nd quarter of 2011. Value of new contracts for buildings in the same period is 40,5% lower while value of new orders on other construction facilities is 30% lower.

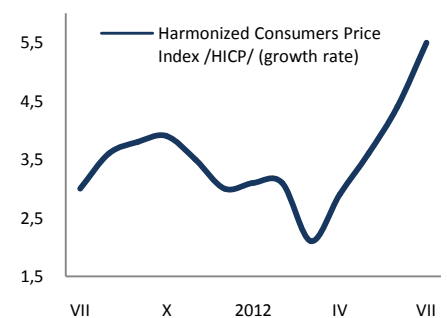
Growth rates in processing industry and retail turnover



3. Prices

Growth of annual inflation rate by 4,4% was caused by growth of electric energy, food and administrative prices. Annual growth of electric energy prices by 10,4% in July 2012 is a consequence of growth at the beginning of year for 6%, and lower basis in April 2011 when there was decrease by 3,5% of electric energy prices in April-July 2012 period. The prices were in average by 8% higher in comparison to the same period last year. Annual growth of food and soft drinks prices by 4,8% resulted from growth of these products' prices both Montenegro's and imported one. Snowy disaster destroyed crops, record-long drought decreased the offer of local food products, and growth of imported raw material and final food products also contributed to growth of food prices. New taxes, increase of existing and new excises increased the prices of alcohol drinks and tobacco, carbonated drinks and coffee as well as electric energy and communications. Annual inflation measured by *harmonized index of consumers' prices* in July 2012 was 5,5%, caused by aforementioned growth of prices, i.e.: accommodation by 47,0%, tobacco by 16,3%, water supply and sewerage 45,1%, electric energy 10,6%, fruit (16,3%) and vegetables (27,2%). Prices of *industrial products producers* in July 2012 record annual growth for 0,9%. **Annual inflation rate in EU zone** in July 2012 was unchanged in comparison to previous two months and was 2,4%. The lowest annual growth was recorded in Greece (0,9%), Ireland and Belgium (2,0%), while the highest annual growth was recorded in Malta (4,2%), Estonia (4,1%) and Slovakia (3,8%).

Inflation



4. Employment and Wages

Summer tourist season and Government's measures caused positive changes in labor market, especially regarding employment of local labor force. In July 2012 in comparison to July 2011 number of employed people grew for 1,5%, and unemployment rate was 12,4% (12,6% in July 2011.). Number of people looking for a job for the first time is growing- 8,5% more in July 2012 than in July 2011 (out of which 27,3% is with University degree). Number of vacancies in July 2012 was 2.651, 19,2% more than in July 2011. Through Government's measure, 516 internships with University degree were employed which is five times more than in July 2011. Number of issued work permits to foreigners, in January-July 2012 was 12.827, 0,8% less than in the same period 2011. Average gross wage in July 2012 was 716 €, and its average in January-July period is 0,7% higher than in the same period last year. Average net wage in July 2012 was 480 €, which represents growth on annual level by 0,6%.

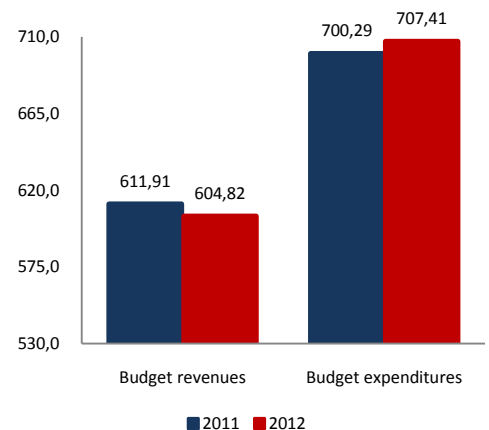
Number of unemployed and announced working positions



5. Public Finance

July 2012 records budget surplus of 22,5 mill €. Negative perspectives from the beginning of the year were compensated so in comparison to last year the revenues gap is lowered to 7,1 mill €, while in the same time expenditures record growth for 7,15 mill €. Budget revenues in July were 130,8 mill €, which makes them 15,3% higher in comparison to last year's and 10,8% higher than planned. Deviation from revenue plan was mostly caused by increase of revenues arising from corporate tax, after payment of 25 mill € tax on dividend, and constantly satisfactory collection of this tax during the year. Taxes and contributions on personal income (31,9% of total revenues) and PDV (28,5% of total income) – recorded decline for 5%, i.e. 4,3% in comparison to the same period last year. Budget expenditures for July 2012 record decline for almost 12% in comparison to the same month of last year due to high consumption in July 2011, allocated subsidies, while expenditures of 108,3 mill € from July are balanced with planned. Increase of expenditures for material and services for about 60% was not result of higher expenditures but technical change in state Budget where means previously recorded on position *transfers to institutions, individuals and NGOs* now are at position *transfers for material and services*. This contributes to transparency of budget means spending and interest rates. Social care transfers also record growth in comparison to the same period of last year for 6,5%. With revenues amounting 130,8 and expenditures of 108,3 mill €, **budget surplus of 22,5 mill € was accomplished** in July this year. **Gross state debt** at the end of July 2012 was 1.718,8 mill € or 50,5% of estimated GDP (3.405,0 mill €), which presents growth for 2,6% in comparison to June of current year. The reason for this is withdrawal of funds in the amount of 100 mill at Credit Swiss Group, with guarantee of World bank which provided favorable conditions for budget financing. State debt consists of 411,3 mill € of internal and 1.307,6 mill € of foreign debt. **State deposits** at the end of August 107,2 mill €, which means the **net state debt** (gross state debt minus deposits value) was 1611,6 mill €, or 47,3% of GDP.

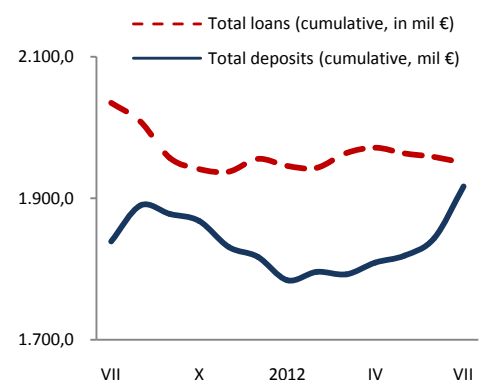
Central Budget revenues and expenditures (jan-jun 2011 and jan-jun 2012)



6. Banking Sector and Liquidity

Tendency of total deposits and households' savings growth has continued in July with improvement of credits and deposits ratio and mild decrease of banks' lending. Total deposits grew on monthly level for 4,0% and annual level for 4,2%. In total deposits, deposits of households are still predominant participating with 56,7% and amount of 1.086,6 mill €. Both sectors, economy and households accomplished growth on monthly (9,7% and 3,3%) and on annual level (8,7% and 8,1%), respectively. However, despite growth of total deposits there is still maturity mismatch of deposited and placed funds, since deposits are short-termed while in the structure of total loans, the majority goes to long-term loans. Total credit lending of banks is lower for 0,4% in comparison to previous month and 4,2% on annual level. The most significant credit users are economy and households participating by 90,6% in total loans. Furthermore, 0,4% less loans were approved to economy in comparison to the previous month and 10,8% in comparison to the same month last year. Credits/deposits coefficient was 1,02 in July this year and is improved in comparison to July of last year (1,11). In the same time, interest rates to newly approved loans increased from 10,4% in June to 11,2% in July 2012, while average effective rate on total loans did not change significantly for longer period and is 9,5%. Illiquidity of real sector is still strong so 11.961 legal entities were blocked in July which is 0,3% more than previous month. Total debt was 398,5 mill € and grew for 1,3% on monthly level. Share of non-performing loans in total loans grew from 17,1% in June to 17,3% in July, while share of late repayment loans grew from 22,5% to 25,7%. Considering annual level, non-performing loans decreased from 24,7% to 17,3%, and late repayment loans from 29,8% to 25,7%.

Total loans and total deposits (mil.€)



7. Foreign Trade Exchange and Investment

Foreign trade deficit of 827,9 mill € for Jan-Jul period is 7,3% higher than in the same period last year. Deepening of foreign trade misbalance resulted from aluminum export decrease due to production and prices decline. Total commodities exchange in subject period was 1.254,6 mill €, which is 1,0% lower than the same period last year; export value was 213,3 mill € or 13,8% less, and import 1.041,3 mill € or 2,2% more. Import-export coverage was 20,5% and was 3,8 p.p lower than in the same period of previous year. Export decline resulted from fall of aluminum and aluminum's products export for 21,9% (40,9% of total export), with significant decline of export value of mineral fuels and lubricants mostly caused by decline of electric energy export for 34,1%. In the same time, steel and iron export was 12,7 mill €, which is for 63,3% more than in the same period last year. The biggest trade exchange is traditionally with CEFTA countries (61,2% of total export) and EU27 (31,8%). In import structure, the biggest share refers to mineral fuels and lubricants (19,6%), common consumption products (18,9%) and machines and transport facilities (17,9%). Increase of import value was also caused by growth of imported industrial products' prices, which for said period was 1,6%. In subject period, the most commodities were imported from Serbia (29,5%), Greece (8,5%) and Bosnia & Herzegovina (6,8%). According to preliminary data for January–June 2012 period, net foreign direct investment were 144,9 mill €, which is 21,0% lower than in the same period 2011. Total inflow of FDI was 210,4 mill€. Structure is as follows: ownership investments 71,1%, out of which into companies and banks 20,5% and real estate 50,6%. FDI referring to inter-companies debt participated with 27,4% and other investments with 1,4%.

Foreign Trade Exchange balance and FDI

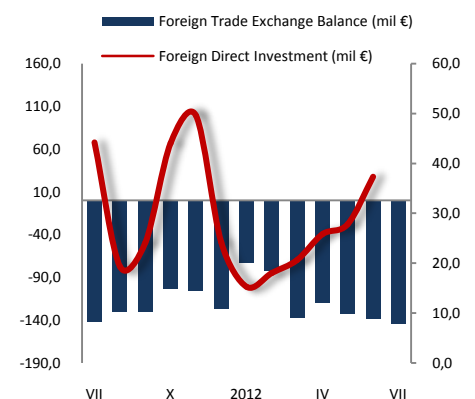


Table 1: MACROECONOMIC INDICATORS – July 2012

GDP	2011						2012							Analytics		
	3.273						3.405									
	2,5						0,5									
	5,5						4,0									
Indicators	2011						2012							July 2012		
	VII	VIII	IX	X	XI	XII	I	II	III	IV	V	VI	VII	M-n-M	Jul 2012 / Jul 2011	Jan - Jul 2012 / Jan - Jul 2011
REAL SECTOR																
Industrial production (growth rate)	0,2	18,0	-2,0	-4,2	-15,9	-37,1	-24,5	-14,7	-4,10	20,80	4,00	-19,60	-1,80	29,1	-1,8	-6,7
Processing industry (growth rate)	9,7	28,0	-3,7	0,8	4,6	-8,3	5,0	-4,40	11,60	33,10	3,60	-18,50	-14,20	2,6	-14,2	1,3
Overnight stays in tourism (growth rate)	7,5	12,2	15,3	11,6	6,6	4,2	11,1	-7,10	14,80	6,20	5,80	7,60	5,60	146,1	5,6	6,1
Retail turnover (growth rate)	36,8	21,8	25,2	26,3	24,4	37,3	21,3	16,30	8,00	18,60	9,80	3,30	2,10	16,9	2,1	10,1
Value of works in construction (growth rate)	2,1						-2,6		1,7			-23,7				
INFLATION																
Consumer Prices Index /CPI/ (growth rate)	3,0	3,6	3,4	3,3	3,0	2,8	2,7	4,2	2,7	3,1	3,5	3,9	4,4	0,2	4,4	3,7
HICP (growth rate)	3,0	3,6	3,8	3,9	3,5	3,0	3,1	3,1	2,1	2,9	3,6	4,4	5,5	0,5	5,5	n/d
Producers Price Index (growth rate)	3,6	3,2	3,2	2,8	2,8	1,0	-0,6	-0,8	-1,5	-0,2	-0,3	1,8	0,9	0,0	0,9	-0,1
EMPLOYMENT AND WEGES																
Employed (number, end of period)	170.618	167.955	164.386	163.396	162.712	162.450	160.880	162.035	162.569	163.744	165.776	162.567	173.124	6,5	1,5	1,3
Unemployed (number, end of period)	29.128	29.078	29.405	30.180	30.576	30.552	31.339	31.495	31.562	31.320	30.126	29.411	28.686	-2,5	-1,5	-3,1
Unemployment rate (%)	12,6	12,5	12,7	13,0	13,2	13,2	13,5	13,6	13,6	13,5	13,0	12,7	12,4	-2,4	-1,6	-3,4
Unemployment rate (LFS) (%)	19,5			18,1			20,7						0,0	-100,0	-100,0	-0,7
Vacancies	3.445	3.738	4.153	3.077	2.391	3.178	1.706	2.211	4.615	3.003	3.685	4.146	2651,0	-36,1	-23,0	-10,9
Average monthly gross wage (€)	710	709	712	711	721	722	754	739	730	733	727	722	716	-0,8	0,8	0,7
Average monthly net wage (€)	476	475	477	477	483	484	505	495	489	491	487	484	480	-0,8	0,8	0,6
MONETARY SECTOR																
Total loans (cumulative, in mil €)	2.034,9	2.008,5	1.957,3	1.941,3	1.937,7	1.955,7	1.945,7	1.943,0	1.963,9	1.971,5	1.963,3	1.958,4	1.950,1	-0,4	-4,2	/
Total loans (growth rate)	-12,1	-12,0	-6,1	-6,5	-13,0	-11,1	-9,4	-9,7	-6,1	-5,8	-6,5	-4,3	-4,2	-0,4	-4,2	/
Non-performing loans /NPLs/ (in mil €)	502,6	521,2	386,2	358,7	341,4	288,3	292,2	297,3	305,1	287,5	309,8	335,4	338,4	0,9	-32,7	/
Participation of NPLs in total loans (%)	24,7	26,0	19,7	18,5	17,6	14,7	15,0	15,3	15,5	14,6	15,8	17,1	17,4	0,2	-7,3	/
Total deposits (cumulative, mil €)	1.839,1	1.889,8	1.877,8	1.868,0	1.831,1	1.817,2	1.784,3	1.796,1	1.792,6	1.809,3	1.818,9	1.843,4	1.916,6	4,0	4,2	/
Total deposits (growth rate)	1,6	1,2	5,3	4,6	2,3	1,5	-1,4	-1,2	0,5	0,7	1,4	0,3	4,2	4,0	4,2	/
Loans to nonfinancial institutions (mil €)	1052,2	1025,5	985,8	969,4	959,7	944,6	931,1	934,7	945,6	951,0	948,3	942,6	938,8	-0,4	-10,8	/
Loans to households (cumulative, mil €)	854,5	847,4	843,9	841,6	840,5	833,7	832,3	826,2	828,8	829,6	830,3	831,7	827,6	-0,5	-3,1	/
Nonfinancial institutions deposits (mil €)	485,0	525,4	499,2	507,3	489,1	477,8	460,1	465,0	453,8	465,8	483,0	480,7	527,4	9,7	8,7	/
Households savings (cumulative, mil €)	1005,0	1021,6	1034,9	1022,4	1026,4	1033,4	1024,7	1.034,1	1.034,0	1.044,8	1.043,3	1.051,4	1.086,6	3,3	8,1	/
Interest rate for loans	9,72	9,70	9,61	9,73	9,78	9,73	9,68	9,65	9,64	9,61	9,57	9,53	9,54	0,01	-0,18	/
Interest rate for deposits	3,16	3,09	3,11	3,09	3,08	3,06	3,09	3,08	3,14	3,12	3,09	3,04	2,94	-0,10	-0,22	/
EXTERNAL SECTOR																
Commodities export (mil €)	34,0	42,0	42,4	48,3	37,9	36,3	27,5	23,9	33,4	31,2	34,5	31,9	31,0	-2,9	-8,9	-13,8
Commodities import (mil €)	175,9	172,5	173,1	151,6	143,6	163,5	99,9	106,6	170,2	150,9	167,7	170,8	175,2	2,6	-0,4	2,2
Foreign Trade Exchange Balance (mil €)	-141,9	-130,5	-130,7	-103,2	-105,7	-127,1	-72,4	-82,6	-136,8	-119,7	-133,2	-138,9	-144,3	3,9	1,7	7,3
Foreign Direct Investment (mil €)	44,2	19,3	24,1	44,1	49,6	24,2	15,3	18,0	20,6	25,8	27,8	37,3	n.p.	34,1	308,6	-21,0
INTERNATIONAL ENVIRONMENT																
Brent crude oil (US\$)	116,7	114,9	102,8	109,6	110,5	107,4	111,0	122,2	122,9	119,5	101,7	97,6	104,5	7,1	-10,5	-2,8
Aluminum (US\$)	2.525,4	2.381,0	2.293,5	2.180,7	2.080,0	2.024,4	2.151,3	2.207,9	2.184,2	2.048,5	2.002,5	1.885,5	1.876,3	-0,5	-25,7	-19,6
EURIBOR (12 months)	2,2	2,2	2,1	2,1	2,1	2,0	1,9	1,7	1,6	1,4	1,3	1,2	1,2	0,0	-1,0	/
Inflation in Euro zone	2,5	2,5	3,0	3,0	3,0	2,7	2,7	2,7	2,7	2,6	2,4	2,4	2,4	0,0	-0,1	/

Source: Monstat, Central bank, Employment Bureau of Montenegro

All indicators are presented as annual growth rates ((indicators' change rate of subject month in comparison to same month of previous year in %) unless differently stated in title

M-n-M stand for monthly change (indicators' change rate of subject month in comparison to previous month in %)

Table 2: BUDGET OF MONTENEGRO – July 2012

Central Budget of Montenegro	Participation in total VIII (%)	2010 (Jan-Dec)	2011 (Jan -Dec)	2011/2010	2011	2012							2012 plan	Analytics		
					VII	I	II	III	IV	V	VI	VII	VII	Jul 2012 / Jul 2011 (%)	Jan - Jul 2012 / Jan - Jul 2011	Jul 2012 / Jul 2012 plan
CURRENT REVENUES, out of which:	100	1140,07	1129,14	99,04	113,49	48,74	67,72	76,27	98,71	86,70	95,82	130,85	118,07	15,30	-1,16	10,83
<i>Taxes on Income</i>	31,92	469,51	435,22	92,70	44,52	12,32	30,47	33,23	39,30	34,83	32,63	41,77	45,15	-6,16	-4,98	-7,47
<i>Corporate Tax</i>	21,81	20,27	36,10	178,09	3,44	0,41	0,43	4,55	13,49	3,05	3,80	28,54	4,10	730,04	110,02	596,78
<i>Value Added Tax</i>	28,54	364,18	392,24	107,70	38,96	21,20	21,32	23,76	27,71	30,99	37,82	37,35	39,25	-4,15	-4,33	-4,85
<i>Excises</i>	10,08	134,26	143,38	106,79	15,16	9,27	9,08	6,38	9,98	10,09	14,77	13,19	17,84	-13,01	-3,51	-26,10
<i>International Trade and Transaction Tax</i>	1,80	50,81	45,33	89,21	4,41	2,10	2,27	3,24	3,38	3,25	2,15	2,36	4,79	-46,52	-26,01	-50,83
BUDGET EXPENDITURES, out of which:	100	1252,60	1318,82	105,29	122,56	53,06	99,61	81,37	166,24	98,31	100,48	108,34	108,80	-11,60	1,02	-0,42
<i>Gross Earnings and Contributions</i>	32,79	283,66	371,26	130,88	37,11	0,00	31,28	27,71	47,40	26,80	32,14	35,53	34,92	-4,27	-1,33	1,73
<i>Expenditures for Supply and Services</i>	14,77	112,68	110,49	98,06	7,32	2,31	12,47	6,67	21,04	14,13	10,14	16,00	12,29	118,61	59,55	30,13
<i>Interest</i>	1,13	30,26	45,09	149,03	4,47	3,64	1,66	2,65	14,13	2,02	4,87	1,23	4,40	-72,54	71,72	-72,12
<i>Social Security Transfers</i>	37,82	423,15	454,76	107,47	36,57	37,23	40,40	35,63	43,78	40,87	39,07	40,98	40,00	12,05	6,53	2,45
<i>Transfers to Institutions, Individuals and NGOs</i>	2,14	174,64	87,91	50,34	6,61	0,44	2,81	0,99	4,07	2,47	2,43	2,32	2,61	-64,93	-65,53	-11,25
<i>Capital Outflow</i>	5,67	82,62	77,64	93,97	7,57	2,00	3,39	1,27	4,32	5,50	4,11	6,14	8,46	-18,90	-7,13	-27,40
Budget Surplus/Deficit	-	-112,24	-189,67	-	-9,07	-4,33	-31,89	-5,10	-67,53	-11,60	-4,65	22,51	9,27	-	16,08	-
<i>Primary Deficit</i>	-	-81,99	-144,58	-	-4,60	-0,68	-30,23	-2,45	-53,40	-9,58	0,21	23,74	13,67	-	2,26	-
<i>Repayment of Debt</i>	-	186,01	161,96	-	25,67	15,70	11,94	8,03	11,89	12,12	22,12	23,07	17,84	-10,11	2,08	-
State Debt	100	1270,70	1483,50	116,75	1412,20	1473,20	1540,30	1534,80	1638,60	1634,50	1629,60	1718,80	-	21,71	17,07	-
<i>Domestic Debt</i>	23,92	358,30	419,80	117,16	348,60	419,00	431,30	426,50	432,60	424,10	424,10	411,20	-	17,96	16,87	-
<i>International Debt</i>	76,08	912,40	1063,70	116,58	1063,60	1054,20	1109,00	1108,30	1206,00	1210,40	1205,50	1307,60	-	22,94	17,15	-

Source: Ministry of Finance Montenegro