



KEY DATA AND FACTS*

- Montenegro is a representative democracy of c. 620,000 citizens located on the Adriatic coast, in the Western Balkans. The last Parliamentary elections were held in October 2016, and are scheduled every four years. The next Presidential election will be held in the Spring of 2018.
- The country covers approx. 13,812 km², with a coastline of 293.5 km. The nation's capital is located in Podgorica. In the mountains, the Tara Canyon is the longest in Europe while the Skadar Lake is the largest in the Balkans. The city of Kotor, on the Boka Bay is a UNESCO World Heritage Site
- It is estimated that on the supply side, the most significant impact on the formation of GDP will have: trade (14.8%), industry (12.3%), tourism (8.6%), construction (6.8%), while on the expenditure side the greatest impact will be domestic demand, or household consumption (4.2%) and investments (5.1%) as its most important components. The EURO is the national currency, as adopted in 2001.
- The country is ranked among the top 50 countries with Very High Human Development, according to the UN's Human Development Index, with life expectancy at birth of 76.4 years (UNHDI, 2016) .
- The sovereign rating is B+/B1 (stable). Member of the EBRD, EIB, the World Bank Group, the WTO and the UN, the country joined NATO in June 2017. Further, Montenegro has the status of candidate country for EU Membership and is recognised as the leading candidate country within the Balkans.

**publicly available data*

ECONOMIC AND FISCAL DATA**

- Montenegro's economic and fiscal indicators compare favorably with the EU indicators, as its Debt/GDP ratio is c. 66% vs the EU28 average of c. 83%, or the Euro Area of c. 89%.
- Current GDP is €4,202.1 mn (2017e). Over the past four years, annual real GDP growth has averaged 2.9%. Average annual inflation over the same four-year period was 0.7%, while the Q3 2017 rate stood at 2.7%. Up to Q3 2017, unemployment continued its downwards trend to 14.8%, down from a high rate of 30% in 2006. The current account deficit is 18%.
- The Parliament of Montenegro adopted a new Fiscal Consolidation Strategy in July 2017, aimed at ensuring the sustainability of public finances for the duration of the Government's mandate. In the period 2017 – 2020, the priority of the economic and the fiscal policy is the strengthening of fiscal stability, and within such framework, generating the budget surplus and setting a downward trend of the public debt from 2019, while strengthening the economic activity and competitiveness of the Montenegrin economy.
- In cooperation with the IMF, Montenegro's Medium Term Debt Strategy (MTDS) is being prepared, which will be term adopted in the Q1 2018, and it aims to improve the sustainability of the nation's long-term public debt profile, while minimizing debt servicing costs.
- A major highway project is underway, connecting the Adriatic port of Bar to the northern reaches of the country. This will improve the nation's transport infrastructure and link into the major Adriatic trade routes.
- The country's leading export markets are Hungary, Italy, Slovenia, Germany and Poland (2016). Explorations have also started for oil and gas reserves.

***Monstat, Eurostat*

MONTENEGRO IN EUROPE





Macro Economic and Fiscal developments during 2017 to date

One of the main goals of the new Government of Montenegro, which took over duty in November 2016, is to put sustainability of public finances in the very center of its economic policies. To that end, the Government undertook steps already in December 2016, with the adoption of the **Measures for Budget Deficit and Public Debt**, where an overall effect of the measures is estimated at **€127.5mn or 3.2% of GDP** in 2017.

Following successful implementation of the first package of measures, the Montenegrin Government in June 2017 approved a new **Fiscal Strategy 2017-2020**, with aim **to turn the 5% of GDP budget deficit expected for 2017 into a 4.5% of GDP surplus in 2020**. At the same time, within the Fiscal Strategy the **General government debt is forecasted to decrease from 73% of GDP in 2017 to 67% of GDP in 2020**, while the ultimate goal of Montenegro is to meet debt-to-GDP Maastricht criteria of 60%.

The Fiscal Strategy 2017-2020 underlines the following consolidation measures: harmonisation of excise tax policies with EU standards through increase of excises on cigarettes, ethyl-alcohol, sweetened carbonated water, and introduction of excises on coal; increase of VAT rate from 19% to 21%; decrease of highest wages in public sector by 6%, social benefits, discretionary spending and the gross wage bill. The Fiscal Strategy covers various **structural reforms** related to public finances management, public administration, pension, health and educational system, social and children protection, improvement of financial stability and doing business climate. Additional effects of consolidation measures, defined in the Fiscal Strategy, amount to **€117mn.**, or **2.8% of GDP** for the period 2017-2020.

In accordance to above mentioned measures, provided within the Public Finances Recovery Plan and the Fiscal Strategy, **the overall effect is €243.9mn. or c. 6% of GDP**.

The Government of Montenegro has prepared the **Economic Reform Programme for the period 2018-2020**, which will be submitted to the European Commission by the end of January, which contains already adopted measures with the Public Finances Recovery Plan and the Fiscal Strategy.

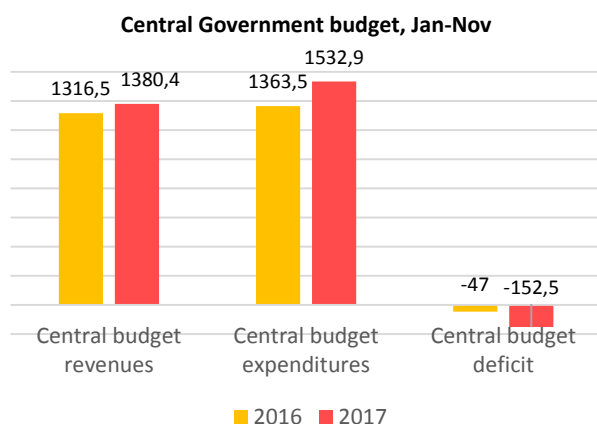
Macro and fiscal projections (Economic Reform Programme 2018-2020)	2017	2018	2019	2020
Nominal GDP (€mn.)	4,202.1	4,397.7	4,569.4	4,729.6
Nominal GDP growth rate	6.3%	4.7%	3.9%	3.5%
Real GDP growth rate	4.0%	3.0%	2.7%	2.6%
Inflation	2.5%	2.6%	1.9%	1.5%
Budget balance (€mn.)	(172.0)	(141.1)	(43.3)	207.0
Budget balance-to-GDP	-4.1%	-2.6%	-0.9%	4.4%
Debt repayments (€mn)	220.4	181.7	529.3	759.5
Total financing needs (€mn)	392.4	295.8	572.6	552.5
Total General government debt (€mn)*	2,790.0	2,963.5	3,060.0	2,862.1
General government debt-to-GDP	66.4%	67.4%	67.0%	60.5%

*exchange rate as of 31-Oct-2017

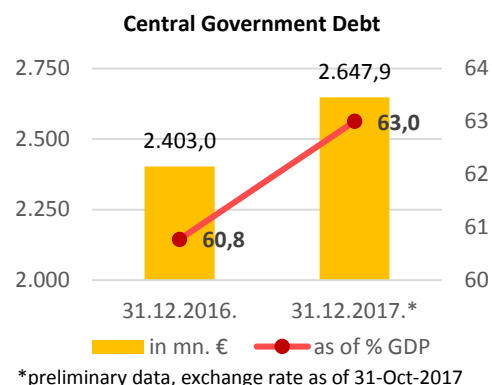
According to preliminary data from Monstat, in the Q1, Q2 and Q3 2017, the economy grew at real rates of 3.1 and 5.2 and 4.7% on an annual basis, therefore the growth rate of GDP for 9 months of last year was 4.5%. Economic growth was driven primarily by a high increase in domestic demand, which caused an increase in employment and disposable income and growth in investment spending as a result of investment in the areas of transport and tourism infrastructure (highway, hotels) and the energy sector. According to the categories of consumption, the most significant growth in 9 months was recorded by household consumption (real growth of 4.4% and contribution to growth of



3.3 pp) and gross in fixed capital formation (real growth of 5.7% and contribution to growth of 1.3 pp). Imports of goods and services increased by 5.4%, while the growth of exports of goods and services is 5.8%.



- **Central government budget revenues** in the period Jan-Nov amounted €1.380.4mn or 32.8% of GDP, which is higher than in the same period in 2016 by €63.9mn or 4.9%.
- **The central government budget deficit** was €152.5mn or 3.6% of GDP and was higher by €105.5mn, comparing to the same period in 2016. The difference comes from higher capital expenditures related to the highway project.



- **The Central government debt of Montenegro as of 31-Dec-2017** amounts €2,647,9mn. or **63.0% of GDP**, while including deposits, the central government debt stock was €2,578.0mn. or 61.4% of GDP.
- According to final data for 2016, published by MonStat (MNE Statistical Office), nominal GDP totalled €3.954mn, which is about €190mn. higher than projected. **Central government debt as end of 2016** was **60.8% of GDP**, while including deposits, it was 59.6 % of GDP.

Central Government Debt Maturity as of 31-Dec-2017*

Maturity (year)	Domestic **		Foreign		Total
	Fix	Var.	Fix	Var	
<1	31.9	0.7	9.1	2.3	44.1
1 < 5	116.3	59.0	1,127.5	268.7	1,571.6
5 < 10	77.8		128.5	33.1	239.3
> 10	87.6		449.8	201.5	738.9
Total	313.7	59.7	1,714.9	505.5	2,593.9

*According to the projection of the debt stock at the end of 2017, exchange rate as of 31-Dec- 2017

**Debt for pension arrears and legal entities and companies is not included (c. €40.6mn.)

Cost and risk indicators of debt at the end of 2017*

Risk indicators		Foreign	Domestic	Total
Cost	Interest payments (% GDP)	1.8	0.2	1.9
	Weighted Average IR (%)	3.3	2.0	3.1
Interest rate risk	ATM (years)**	4.6	5.2	4.7
Refinancing risk	ATR (years)***	3.4	4.9	3.6
	Debt refixing in 1 year (% of total)	28.4	29.2	28.5

* According to the projection of the debt stock at the end of 2017, exchange rate as of 31-Oct-2017. Debt for pension arrears and legal entities and companies is not included (c. €40.6mn.)

** Average Time to Maturity

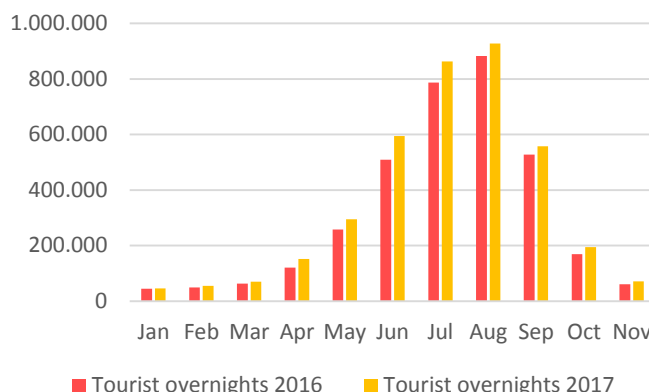
***Average Time to refixing

- **Inflation** recorded growth rates in 2017, and annual inflation in November and average inflation in the period Jan-Nov stood at 2.4%. Euro Area annual inflation was 1.4% in October 2017.¹

¹ Eurostat



- In the period January-November 2017, Montenegro had 17.7% more **tourist arrivals** and 10.1% more **overnight stays** in collective accommodation than in the same period last year. Foreign tourists made 89.2% of all overnight stays.
- In November, tourist's arrivals were higher by 35.2% y/y in collective accommodation, while the number of overnight stays was 16.8% higher. The most of overnight stays in November were realized by tourists from Serbia (15.5%), Albania (11.6%), France (6.2%) and Israel (8.1%).



Recent economic developments

Area	Period (2017)	Growth/Decline (%)	
Transport	Jan-Sep	17,4	passenger traffic at airports
		38,4	transport of goods by rail
		40,6	transshipment of goods in ports
Employment	Jan-Nov	2,7	total employment
		6,4	in the construction sector
Foreign trade	Jan-Nov	10,3	total volume of foreign trade
		14,0	export of goods
		9,7	import of goods
Construction	Jan-Sep	43,4	value of construction works
		21,6	effective hours of work
Industry	Jan-Nov	-4,8	industrial production
		-28,0	supply of electricity, water and gas
		-2,2	manufacturing industry
		17,5	turnover of industrial products

- In accordance with the **Budget Law for 2017**, it was planned that funds for the financing of the budget, of about €255mn, be provided from loan facilities with international or domestic financial institutions. Accordingly, **Montenegro provided a total amount of €254.44mn.** out of which €65mn. was secured on domestic market.
- At the end of 2017, the World Bank approved to the Government of Montenegro the **Policy Based Guarantee (PBG)** in the amount of €80mn., which would provide a loan facilities in amount of €200mn to 250mn. for repaying existing liabilities and budget financing.

The 2018 Budget Law

In accordance with the 2018 Budget Law, revenues are planned in amount of €1,708.2mn., while expenditures are at the level of €1,822.4mn. The deficit is projected at the amount of €114.1mn. and €181,7mn. will be needed for debt repayment. The borrowings are planned to be up to €295.9mn. for the purpose of providing the financing needs of the budget, out of which the amount of €190.0mn. is for the needs of the construction of the "Bar-Boljare" Highway.

Credit rating of Montenegro

Moody's and Standard and Poor's upgraded their credit rating outlooks at the end of 2017 for Montenegro from negative to stable, and affirmed their respective current ratings. These actions, reflect the Government's strong commitment to stabilise and improve the country's fiscal stance.



- On 29-September-2017, **Moody's** affirmed Montenegro's 'B1' rating, and **changed its outlook from negative to stable** due to:
 1. The Government's consolidation measures are likely to stabilize Montenegro's general government fiscal position.
 2. Large investment projects in transportation, tourism and energy sectors support Montenegro's medium-term growth outlook.
 3. Progress in EU accession negotiations and Montenegro's NATO membership strengthens institutions and improve the country's investment climate.
- On 6-October-2017, **S&P Global Ratings** affirms Montenegro's 'B' rating and **changed its outlook from negative to stable**, due to:
 1. Growth rates remain sound, though the potential for ongoing investments to bolster the economy is uncertain.
 2. Projected real GDP growth to average 3.4% in 2017-2018, driven by private consumption and investments, before slightly decelerating thereafter.
 3. Montenegro joined NATO in June 2017, underpinning the country's Euro-Atlantic integration aspirations.

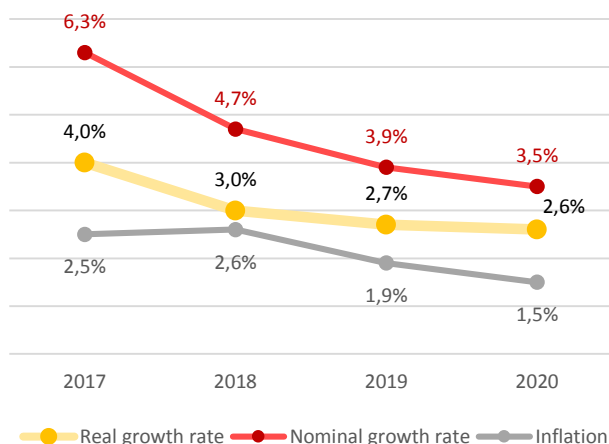
Montenegro's banking sector

- There are 15 banks in Montenegro, which are mostly owned by European parent banks. Solvency ratio of the banking system was 16.8% as of September 2017, well above requirements. At the end of November 2017, mandatory reserve requirements amounted €232.6mn.
- Banks hold €4,122.7mn. in total assets as of November 2017. Liquid assets of banks stand at €1,029.2mn. and the result in 11.5% annual growth. At the end of November 2017, total credits of banks amounted to €2,716.8mn. Cash credits comprised 22.1%, liquidity 18.3%, and housing loans 12.1%, out of the total credits of banks.
- The system has €3,188,6mn. of total deposits (end November 2017), of which citizens hold €1,645.7mn. in deposits or 51.6%.
- In the same period, non-performing loans (NPL) amounted €190.1mn. and stand at 7.0% of total loans of banks. NPL have recorded a decline of 26.6% y-on-y.

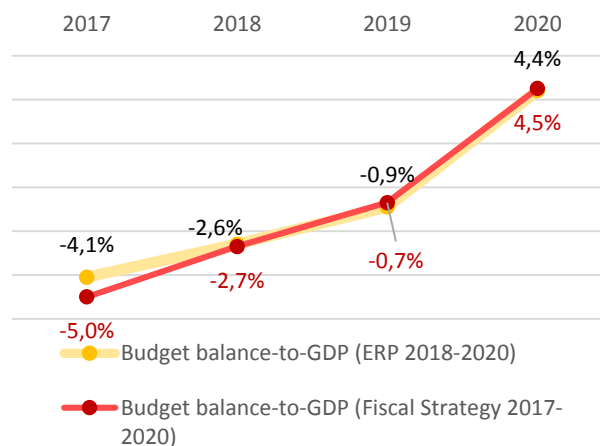


Annex 1

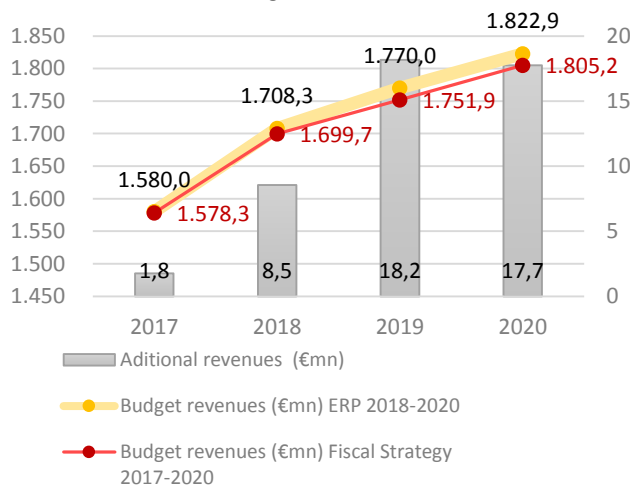
Growth and Inflation



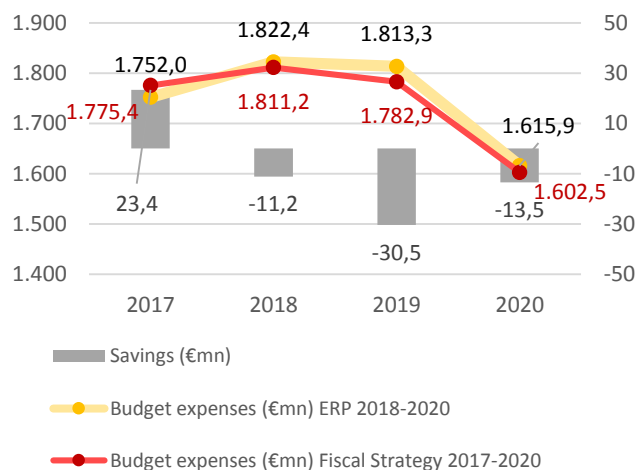
Budget Balance



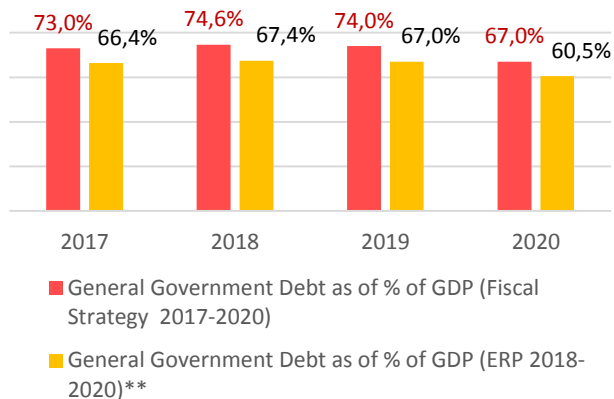
Budget Revenues



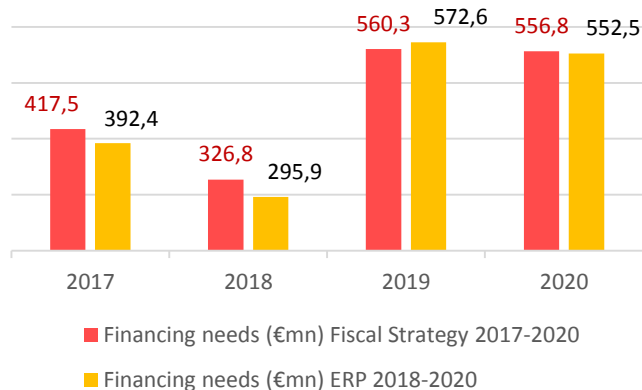
Budget Expenses



General Government Debt



Financing Needs



PUBLIC DEBT MANAGEMENT CONTACTS

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* ERP 2018-2020: Economic Reform Programme 2018-2020

** Total General Government debt, exchange rate as of 31-Oct-2017