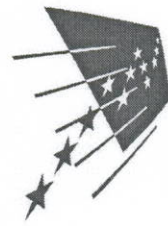




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# MONTENEGRO



## Key developments

On 9 December, the European Council invited the Council to examine, on the basis of a Commission report, Montenegro's progress in the implementation of reforms with a view to opening accession negotiations in June 2012.

On 17 December the World Trade Organisation Ministerial Conference admitted Montenegro to the WTO.

Also in December, Standard & Poor's affirmed the sovereign credit rating of Montenegro ('BB' long-term and 'B' short-term). The agency maintains a negative outlook, emphasising a weak external position and refinancing risks in its report.

Following the rejection of the reorganisation plan proposed by its former owners, the sole steel producer company in the country -Zeljezara Nikšić- which had gone bankrupt in early 2011, has been offered for sale in January 2012.

## Real sector

In the first three quarters of 2011 the economy expanded by 3.5% year-on-year, according to estimates by the Central Bank of Montenegro, compared to a 2.5% growth for the whole 2010.

The performance of industrial production continued to be rather volatile. Following an increase of 5.4% in the third quarter, it fell by 4.2% and 15.9% in October and November, respectively. In the first eleven months of 2011, industrial production contracted on average by 6.9% year-on-year. While manufacturing and mining expanded by 8% and 7%, respectively, these improvements could not compensate for the contraction in utilities (28%). In the second and third quarters of 2011 the number of tourist arrivals increased by 9.5% and 8.5% year-on-year respectively. The post-season recorded good results also, with visits increasing on average by 15% in October and November. Overall, total revenues from tourism (direct and indirect) in the first eleven months of 2011, are estimated at some 20% of GDP, or 5% higher than in the previous year.

The growth of retail trade accelerated to around 25% in the third quarter and kept its pace through November. In real terms, retail sales were up by 16% in the first eleven months of 2011.

## Labour market

The situation on the labour market was characterised by an acceleration of employment growth and a gradual lowering of the unemployment rate since the second quarter of 2011. For the full year 2011, the Employment Agency registered 21,610 new jobs, 18.2% more than in the previous year. At the end of December, the unemployment rate reached 11.5% compared to 12.2% a year earlier.

The average net salary increased in November by 1.7% year-on-year, reaching EUR 483. Annual increases were also registered in public administration, retail trade and hotels and restaurants. Wage growth moderation started in the second quarter and continued since then. Following a fall of average gross wages by 1.6% in the third quarter, and stagnation in October, gross wages increased by 0.7% year-on-year in November. So far, wages have increased by 1.8% on average in the first eleven months of 2011, translating into a real wage loss of 1.3%.

On 21 December, the government and the trade unions signed an agreement on wage policy and rationalisation of the public administration. The accord, valid until 2015, foresees the negotiation of salary rises when inflation exceeds 2%, or GDP grows above 3.5%. By contrast, should the economy shrink by more than 2%, the parties commit to engage on salary cuts.

## External sector

The current account deficit continued narrowing in the third quarter of 2011, reaching 20% of GDP in annualised terms, down from 22% in the second quarter, and compared to 31% a year earlier. The improvement was driven by the strong growth of the balance of services (30% year-on-year). Furthermore, the income balance shifted from a deficit to a surplus, and current transfers improved by 10% year-on-year, while the trade deficit contracted by almost 2% in the

same period. However, over the first eleven months of 2011, while merchandise exports remained strong, accelerating by 39% year-on-year, imports increased by 10% from a much higher basis, resulting in a 3% expansion of the trade deficit to 41.5% of GDP.

Net FDI contracted by 31% year-on-year in the first ten months of 2011, totalling EUR 310 million or 9.5% of GDP. Investments into domestic companies and real estate represented 37% and 34% of total inflows, respectively, while intercompany debt accounted for an additional 24%. Total FDI outflows totalled EUR 89 million.

### Monetary developments

In order to facilitate the clearing of real estate stocks in the balance sheets of domestic banks, the Central Bank Council decided in November to extend by one extra year the deadline for deducting acquired property when calculating bank's own funds.

In November, the consumer price index decelerated to 3% compared to 3.3% in October. The main drivers of inflation were alcohol and tobacco, transport, as well as health care prices. In the first eleven months of 2011 the average inflation was marginally higher (3.1% year-on-year). In January 2012 the energy regulator increased the average electricity price by 6%.

The level of foreign exchange reserves stabilised at 11% of GDP in the third quarter as well as in October 2011, after having contracted by 22% year-on-year in the second quarter.

### Financial sector

The weighted average effective interest rate on loans rose to 9.73% in October 2011, compared to 9.63% at the end of 2010, while the weighted average interest rate for deposits decreased to 3.09% from 3.26% in the same period.

The deleveraging in the banking sector continued. Bank lending contracted by 14% year-on-year in October. Credit to the private sector represented 57% of GDP in October, compared to 71% a year earlier. By contrast, bank deposits increased by 4.6% year-on-year in October. Their growth was driven by the increase of households' savings (11% year-on-year) while deposits from private as well as public institutions, with the exception of municipalities, recorded negative growth rates.

Banks' capital contracted by 6.4% year-on-year in the first nine months of 2011, bringing the capital adequacy ratio down to 15.1% in September 2011 compared to 15.9% at the end of 2010. The aggregate return on assets as well as on equity remained negative at -1% and -10% respectively. Banks recorded an aggregated loss of EUR 22 million by the end of September after clearing EUR 75 million of loan losses from their balance sheets. Thus, the ratio of non-performing loans was 19.7% of total loans at the end of September compared to 25.3% in June.

Market capitalisation of the Montenegro stock exchange decreased by 2% year-on-year in October. The MONEX20 index as well as the bourse's turnover contracted during the same period, by 23% and 20% respectively. In the first nine months of 2011 the insurance market expanded by 4.5% year-on-year. By contrast, the value of leasing contracts contracted marginally by -0.4% in the same period.

### Fiscal developments

In the first nine months of 2011, budget revenue was 1.6% below projections, or EUR 10 million lower than in the same period of the previous year. As a result, the budget recorded a consolidated cash deficit of EUR 59 million, or 1.8% of full-year projected GDP. The strong performance of the corporate income tax, excise duties and VAT proceeds, did not suffice to fully offset the shortcomings from other budget revenue lines. Furthermore, the fiscal position further deteriorated with the surge in spending resulting from the increase over the year of public wages, pensions, and interest servicing by an almost additional EUR 120 million, and notwithstanding important cuts in the capital budget and transfers of around EUR 80 million. The deficit further deteriorated in November and reached EUR 82 million, or 2.5% of GDP, in the first eleven months of 2011.

In November 2011 the stock of public debt reached 44.5% of GDP, up from 44.2% a month earlier. Public external debt represented 73.4% of the total debt. In November, state guarantees amounted to 11.3% of GDP or 16% more than at the end of 2010.

TABLE

European Commission, ECFIN-D-1

## MONTENEGRO



		2007	2008	2009	2010	2011	ECFIN Forecast		Q2 11	Q3 11	Q4 11	Oct 11	Nov 11	Dec 11
							2012	2013						
<b>1 Real sector</b>														
Industrial confidence <sup>1.1</sup>	Balance	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Industrial production <sup>1.2</sup>	Ann. % ch	0.1	-2.0	-32.3	23.3	:	:	:	-21.2	5.4	:	-4.2	-15.9	:
Gross domestic product <sup>1.3</sup>	Ann. % ch	10.7	6.9	-5.7	2.5	2.7f	2.2	3.2	2.5	3.5	:	N.A.	N.A.	N.A.
Private consumption <sup>1.4</sup>	Ann. % ch	:	:	-7.7	4.2	1.0f	1.6	2.5	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation <sup>1.5</sup>	Ann. % ch	:	:	-25.3	-21.2	-11.5f	4.5	10.0	:	:	:	N.A.	N.A.	N.A.
Construction index <sup>1.6</sup>	Ann. % ch	-3.2	45.7	-21.5	13.1	:	:	:	35.7	2.1	:	N.A.	N.A.	N.A.
Retail sales <sup>1.7</sup>	Ann. % ch	40.8	22.3	-9.0	1.6	:	:	:	14.1	25.2	:	23.2	22.3	:
<b>2 Labour market</b>														
Unemployment <sup>2.1</sup>	%	11.9	10.7	11.4	12.2	11.5	:	:	11.3	11.1	11.5	11.4	11.6	11.5
Employment <sup>2.2</sup>	Ann. % ch	3.7	6.3	4.8	-7.1	0.9f	0.9	1.7	3.1	5.6	:	3.5	:	:
Wages <sup>2.3</sup>	Ann. % ch	14.2	22.8	5.7	11.0	4.4f	3.7	5.3	0.0	-1.6	:	0.0	0.7	:
<b>3 External sector</b>														
Exports of goods <sup>3.1</sup>	Ann. % ch	-20.4	-12.7	-34.2	20.3	:	:	:	15.9	30.8	:	69.2	-12.1	:
Imports of goods <sup>3.2</sup>	Ann. % ch	39.6	22.1	-34.6	-2.1	:	:	:	10.0	10.4	:	8.3	-0.1	:
Trade balance* <sup>3.3</sup>	% of GDP	-58.7	-68.1	-46.0	-41.1	-40.0f	-39.2	-40.0	-40.2	-40.2	:	N.A.	N.A.	N.A.
Exports goods and services <sup>3.4</sup>	% of GDP	44.4	39.5	32.1	34.7	:	:	:	37.7	40.0	:	N.A.	N.A.	N.A.
Imports goods and services <sup>3.5</sup>	% of GDP	86.7	94.0	65.4	63.1	:	:	:	63.4	64.0	:	N.A.	N.A.	N.A.
Current account balance* <sup>3.6</sup>	% of GDP	-39.6	-51.3	-30.1	-24.7	-21.5f	-20.4	-21.3	-22.1	-20.1	:	N.A.	N.A.	N.A.
Direct investment (FDI, net)* <sup>3.7</sup>	% of GDP	20.8	18.9	35.8	17.5	:	:	:	12.8	12.6	:	N.A.	N.A.	N.A.
International reserves <sup>3.8</sup>	mio EUR	467.9	313.0	397.5	416.4	:	:	:	409.9	369.1	:	367.5	:	:
Int. reserves / months Imp <sup>3.9</sup>	Ratio	3.3	1.5	2.9	3.0	:	:	:	2.8	2.5	:	2.4	:	:
<b>4 Monetary developments</b>														
CPI <sup>4.1</sup>	Ann. % ch	4.3	7.4	3.4	0.5	3.1f	2.6	3.2	3.6	3.3	:	3.3	3.0	:
Producer prices <sup>4.2</sup>	Ann. % ch	8.5	14.0	-3.8	-0.7	:	:	:	2.9	3.3	:	2.8	2.8	:
Food prices <sup>4.3</sup>	Ann. % ch	N.A.	9.0	3.3	0.3	:	:	:	5.3	2.0	:	1.0	0.3	:
M21 <sup>4.4</sup>	Ann. % ch	71.9	-14.3	:	:	:	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR <sup>4.5</sup>	Value	1.00	1.00	1.00	1.00	1.00	:	:	1.00	1.00	1.00	1.00	1.00	1.00
Nominal eff. exchange rate <sup>4.6</sup>	Index	N.A.	N.A.	N.A.	N.A.	N.A.	:	:	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
<b>5 Financial indicators</b>														
Interest rate (3 months) <sup>5.1</sup>	% p.a.	:	:	:	:	2.27	:	:	:	2.27	:	:	:	:
Bond yield (6 months) <sup>5.2</sup>	% p.a.	0.90	:	3.63	3.37	2.41	:	:	2.72	2.58	2.04	2.27	:	1.80
Stock markets <sup>5.3</sup>	Index	36159	19947	13303	13993	11896	:	:	12317	11109	9860	10865	9807	8908
Credit growth <sup>5.4</sup>	Ann. % ch	165.1	24.6	-14.3	-8.2	:	:	:	-12.4	-13.5	:	-13.9	:	:
Deposit growth <sup>5.5</sup>	Ann. % ch	94.4	-4.8	-8.3	-1.9	:	:	:	1.6	5.3	:	4.6	:	:
Non-performing loans <sup>5.6</sup>	% of total	3.7	7.2	13.5	21.0	:	:	:	25.3	19.7	:	18.5	:	:
<b>6 Fiscal developments</b>														
General government balance <sup>6.1</sup>	% of GDP	6.6	0.5	-4.4	-4.9	-3.2e	-2.6	-1.3	-1.5	-1.8	:	N.A.	N.A.	N.A.
General government debt <sup>6.2</sup>	% of GDP	27.5	29.0	38.2	40.9	44.0f	44.4	42.8	43.8	44.6	:	44.2	44.5	:

f: ECFIN forecast Autumn 2011

e: estimated, cash basis

\* Q figures refer to a 4 quarters moving average.

# CHARTS

European Commission, ECFIN-D-1



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