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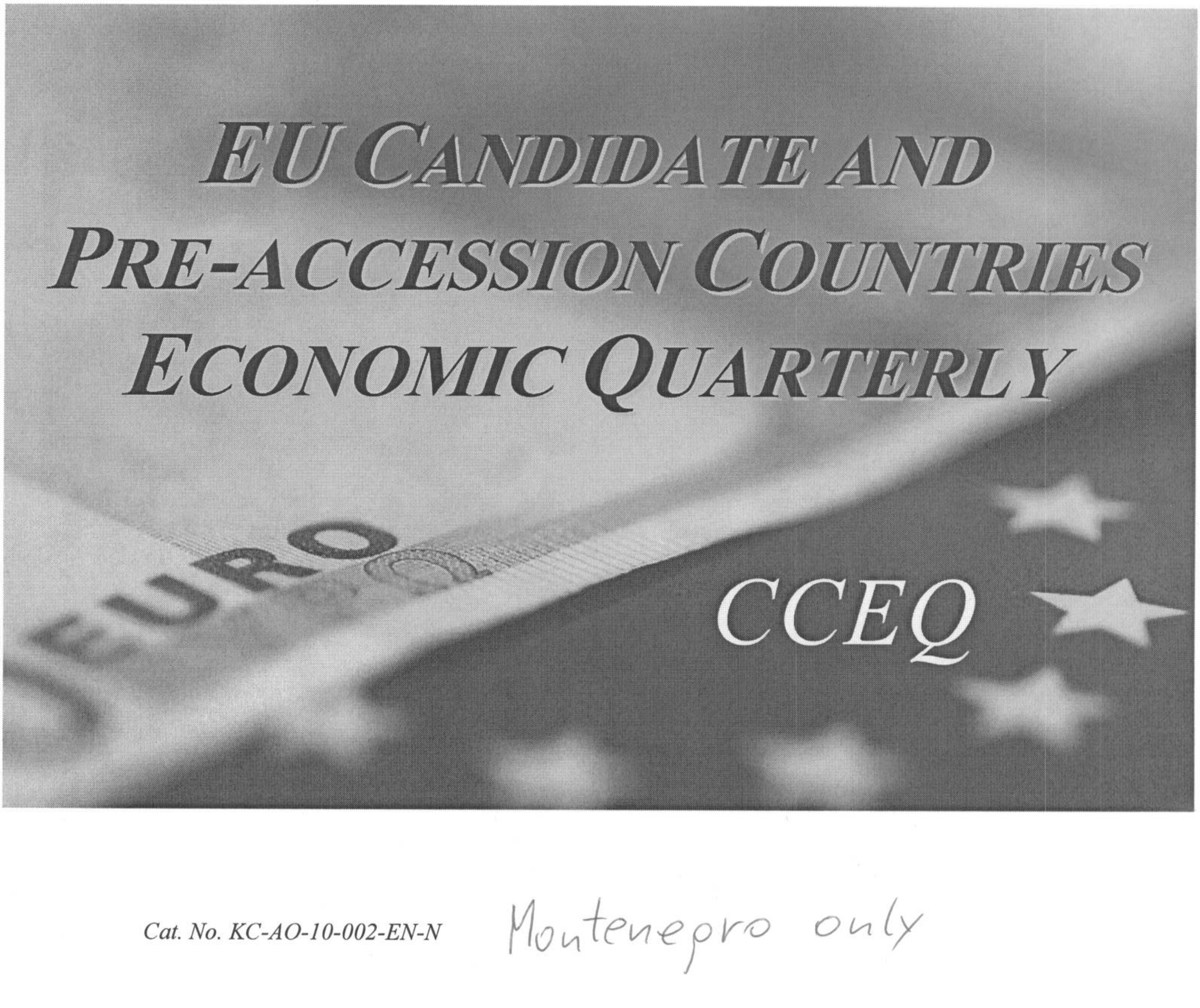

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MONTENEGRO

Key developments

On 31 March the rating agency Moody's changed the outlook of Montenegro's sovereign from negative to stable on the basis of fiscal consolidation, financial system stabilisation and overall economic recovery. The government bond rating remains at Ba3, while the foreign currency deposits and bonds are kept at B1 and Baa1 respectively.

The government placed successfully on 1st April EUR 180 million Eurobonds. This second 5-years issue has a fixed annual coupon of 7.25%, or 62 bps lower than the previous one in September 2010. The issue attracted 67 investors from 21 different countries.

Montenegro completed on 1st April the first round of negotiations for the conclusion of a free trade agreement with the European Free Trade Association (EFTA).

The census of the population which should last 15 days commenced on 1st April. The last census dates from 2003.

Real sector

The economy started to recover from the effects of the crisis, growing by an estimated 1.1% in 2010 according to recent government and IMF projections. The first signs of revitalisation appeared in the second quarter of 2010 after 18 months of continuous contraction. The turnaround of the global metal market gave an additional boost to the recently restructured local industries, raising total industrial production by 23.3% year-on-year on average in 2010. Industrial output further accelerated by 8.4% year-on-year in February 2011, despite an 8% contraction from utilities.

In the last quarter of 2010 the construction industry accelerated rapidly, recording a 61% year-on-year expansion of the value of finalised construction works, following the initial recovery of 1.8% recorded in the previous quarter after one year of continuous contraction. Overall, construction works accounted for 8.4% of GDP in 2010, expanding by 13%, compared with the reduction of 21% recorded a year earlier.

Retail sales expanded in real terms by 1.1% year-on-year in 2010. The cumulative turnover accounted for 28.7% of GDP. Retail trade further accelerated during the first two months of 2011, expanding in real terms by 6.8% year-on-year.

Labour market

The unemployment rate reached 12.1% at the end of 2010, and continued deteriorating during the first months of 2011, reaching 12.5% by the end of March, marginally below the 12.6% rate recorded a year earlier. Yet, the number of job vacancies announced in the first quarter of 2011 has increased by 33% year-on-year. However, employment rates should remain negative until April due to methodological changes introduced a year ago.

The weak dynamics of the labour market were reflected in the moderation of average net wages, which increased by 3.5% in 2010. Yet, the rise of social securities contributions expanded gross wages by 11% year-on-year in 2010, before they gradually moderated to 9% in February 2011.

End March, the government adopted amendments to the labour law intended to increase labour flexibility, to introduce a broader parental leave and equal pay for men and women, and to limit the accumulation of temporary contracts. The amendments have been forwarded to the Assembly for discussion.

External sector

The recovery of the industry contributed to the increase of total merchandise exports in 2010 by 20% year-on-year (exports of aluminium contributing 37% of the increase and oil derivatives 47%). At the same time, merchandise imports increased marginally by 0.2% in 2010. As a result, the trade gap decreased to 43.5% of GDP, from 46% a year earlier. After a successful tourism season, the surplus in services increased by 16% year-on-year. These positive developments brought down the current account deficit to 25.6% of GDP in 2010, from 30% a year earlier. Net FDI reached 18% of GDP in 2010 despite the lack of major privatisation deals. Yet, net errors and omissions represent a sizeable 13.4% of GDP.

In January 2011 FDI inflows surged by 112% year-on-year as a result of a one-off sale of a minority stake of the power grid operator CGES.

Monetary developments

The Central Bank's Council adopted several decisions in March 2011 establishing the framework for open market operations, amending the central register of bank accounts, and defining the conditions for intervention of the Central Bank as lender of last resort.

Consumer prices remained subdued during 2010. The average price index averaged 0.5%, while headline inflation recorded a 0.7% year-on-year acceleration in December. The trend was supported by the reduction of food prices, benefitting from the favourable exchange rate with Serbia, but also the reduction of annually adjusted electricity prices. However, the first months of 2011 have witnessed a reversal with the acceleration of prices to 2% year-on-year in February, fuelled by the rapid increase of food and oil global prices.

Financial sector

The weighted average effective interest rate on loans was 9.61% in January 2011 (or 17 basis points higher than a year before). By contrast, the weighted average interest rate for deposits contracted to 3.20% from 3.91% a year earlier.

Bank lending remained negative throughout 2010, contracting by 7.9% year-on-year, as the increased share of non-performing assets resulted in the consequent write-offs of receivables and the tightening of lending conditions. Lending to businesses decreased by 11% year-on-year, while credits to households declined more moderately by 6%. Total loans accounted for 73% of GDP in 2010, compared to 80.4% a year before. In January 2011 bank credits further decreased by 9.6% year-on-year.

Bank deposits contracted by 1.9% year-on-year in 2010, driven by the contraction of corporate and government deposits by 16% and 22% respectively. However, households' savings, which represent 52% of total deposits, increased by 13% year-on-year in 2010 and by further 14% in January 2011, bringing deposits growth back to positive territory (1.7%).

Overall, banks' capital fell by 6% year-on-year in 2010, bringing the capital adequacy ratio down to 15.9% at the end of the year, compared with 16.5% in September. Seven banks recorded an aggregated profit of EUR 9.5 million. However, the combined losses of the four others totalled EUR 89 million. The aggregate return on assets as well as on equity remained negative at the end of 2010 at -2.7% and -27.3% respectively. The ratio of non-performing loans accounted for 21% of total loans at the end of 2010.

The combined turnover of the two stock exchanges recorded a sharp contraction of 86% year-on-year in 2010, mostly as a result of the high base following the partial privatisation of the electric power company (EPCG) a year earlier. The aggregated turnover of the two bourses in 2010 totalled EUR 55 million resulting from 19,825 transactions.

Fiscal developments

Budget revenues totalled 42% of GDP in 2010. The effects of the crisis translated into the stagnation of VAT revenues and the contraction of the corporate income tax (9% lower than planned). However, the government did not need to proceed to any budget rebalancing in 2010 as personal income tax, social security contributions and local taxes revenues overshot the plan (by 8.7%, 21% and 9.4% respectively). Public expenditures reached 45% of GDP, Gross wages rose by 2.4% and social protection transfers by 4%, while subsidies contracted by 12% compared with the planned spending. Capital expenditure execution remained flat, 2 percentage points of GDP lower than planned as the highway works were postponed. Overall, the 2010 consolidated budget deficit represented 3% of GDP.

Public debt reached 42% of GDP in 2010 against 38% a year earlier. The increase was a consequence of the rapid expansion of the external debt, which represents 72% of the total. The public debt further decreased to 39.7% of GDP by end-February 2011, although it is bound to increase again in April following the new emission of Eurobonds (some 5.6% of GDP) on 1 April 2011.

TABLE

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		2006	2007	2008	2009	2010	Q3 10	Q4 10	Q1 11	Jan 11	Feb 11	Mar 11
1 Real sector												
Industrial confidence [1.1]	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 [1.2]	Ann. % ch	1.0	0.1	-2.0	-32.3	23.3	41.7	43.7	:	2.0	8.4	:
Gross domestic product [1.3]	Ann. % ch	8.6	10.7	6.9	-5.7	1.1e	:	:	:	N.A.	N.A.	N.A.
Private consumption [1.4]	Ann. % ch	:	:	:	-7.7	:	:	:	:	N.A.	N.A.	N.A.
Gross fixed capital formation [1.5]	Ann. % ch	:	:	:	-25.3	:	:	:	:	N.A.	N.A.	N.A.
Construction index [1.6]	Ann. % ch	N.A.	-3.2	45.7	-21.5	13.1	1.8	60.7	:	N.A.	N.A.	N.A.
Retail sales [1.7]	Ann. % ch	N.A.	40.8	22.3	-9.0	1.6	3.2	-0.1	:	15.8	3.5	:
2 Labour market												
Unemployment [2.1]	%	14.7	11.9	10.7	11.4	12.1	11.8	12.1	12.5	12.4	12.5	12.5
Employment [2.2]	Ann. % ch	4.5	3.7	6.3	4.8	-7.1	-10.9	-9.0	:	-8.4	-7.9	:
Wages [2.3]	Ann. % ch	15.6	14.2	22.8	5.7	11.0	13.5	14.4	:	10.0	9.1	:
3 External sector												
Exports of goods [3.1]	Ann. % ch	40.7	-20.4	-9.4	-36.6	20.3	17.2	20.3	:	176.4	70.2	:
Imports of goods [3.2]	Ann. % ch	53.7	39.6	22.0	-34.6	0.2	6.5	0.2	:	14.7	10.4	:
Trade balance [3.3]	% of GDP	-39.5	-56.1	-67.5	-46.0	-43.5	-52.5	-43.5	:	N.A.	N.A.	N.A.
Exports goods and services [3.4]	% of GDP	49.4	42.4	39.5	32.1	36.5	41.2	36.5	:	N.A.	N.A.	N.A.
Imports goods and services [3.5]	% of GDP	79.1	82.8	94.0	65.4	65.2	77.1	65.2	:	N.A.	N.A.	N.A.
Current account balance [3.6]	% of GDP	-24.7	-37.8	-50.7	-30.1	-25.6	-32.1	-25.6	:	N.A.	N.A.	N.A.
Direct investment (FDI, net) [3.7]	% of GDP	21.7	19.9	17.9	30.8	17.9	20.9	17.9	:	N.A.	N.A.	N.A.
International reserves [3.8]	mio EUR	310.3	467.9	313.0	397.5	416.4	472.6	416.4	:	403.1	:	:
Int. reserves / months Imp [3.9]	Ratio	N.A.	3.3	1.5	2.9	3.0	3.4	3.0	:	2.9	:	:
4 Monetary developments												
CPI [4.1]	Ann. % ch	3.0	4.3	7.4	3.4	0.5	0.4	0.7	:	1.1	2.0	:
Producer prices [4.2]	Ann. % ch	3.1	8.5	14.0	-3.8	-0.7	2.3	0.5	:	2.8	4.5	:
Food prices [4.3]	Ann. % ch	N.A.	N.A.	9.0	3.3	0.3	1.1	2.3	:	1.6	2.9	:
M21 [4.4]	Ann. % ch	82.9	71.9	-14.3	:	:	:	:	:	:	:	:
Exchange rate EUR/EUR [4.5]	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 [4.6]	Index	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
5 Financial indicators												
Interest rate (3 months) [5.1]	% p.a.	1.21	:	:	:	:	:	:	:	:	:	:
Bond yield [5.2]	% p.a.	1.17	0.90	:	3.63	3.37	3.40	2.58	2.69	:	:	2.69
Stock markets [5.3]	Index	14 406	36 159	19 947	13 303	13 993	13 579	13 923	14 298	15 043	14 595	13 255
Credit growth [5.4]	Ann. % ch	125.3	165.1	24.6	-14.3	-7.9	-12.0	-7.9	:	-9.6	:	:
Deposit growth [5.5]	Ann. % ch	120.5	94.4	-4.8	-8.3	-1.9	-6.2	-1.9	:	1.7	:	:
Non-performing loans [5.6]	% of total	7.6	3.7	7.2	13.5	21.2	17.6	21.2	:	N.A.	N.A.	N.A.
6 Fiscal developments												
General government balance [6.1]	% of GDP	2.7	6.7	-0.4	-4.4	-3.0	0.0	-3.0	:	N.A.	N.A.	N.A.
General government debt [6.2]	% of GDP	32.6	26.3	29.0	38.2	42.0	42.3	42.0	:	N.A.	N.A.	N.A.

CHARTS

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