



CENTRAL BANK OF
MONTENEGRO

CENTRAL BANK OF MONTENEGRO MACROECONOMIC REPORT 2022

Podgorica, 2023

PUBLISHED BY	Central Bank of Montenegro Bulevar Svetog Petra Cetinjskog 6 81000 Podgorica Telephone: +382 20 664 997, 664 269 Fax: +382 20 664 576
WEBSITE	http://www.cbcg.me
CENTRAL BANK COUNCIL	Radoje Žugić, PhD, Governor Nikola Fabris, PhD, Vice-Governor Zorica Kalezić, PhD, Vice-Governor Milorad Jovović, PhD Ruždija Tuzović Nikola Milović, PhD
DESIGNED BY	Nikola Nikolić Nikola Marđonović
TRANSLATED BY	Department for Financial Stability, Research and Statistics
PRINTED BY	„Grafo Group“ DOO Podgorica
PRINTED IN	50 copies

Users of this publication are requested to make reference to the source of information whenever they use data from the Report.

ABBREVIATIONS

ARIMA	Autoregressive Integrated Moving Average	IMF	International Monetary Fund
BiH	Bosnia and Herzegovina	ILO	International Labour Organisation
BPM 6	Balance of Payments Manual, Sixth Edition	IPA	Instrument for Pre-Accession Assistance
CEFTA	Central European Free Trade Agreement	IT	Information technology
CBCG	Central Bank of Montenegro	ITRS	International Transactions Reporting System
CEB	The Council of Europe Development Bank	KfW	Kreditanstalt für Wiederaufbau
CIF	Collective investment fund	LIBOR	London Interbank Offered Rate
CKB	Crnogorska komercijalna banka	MEEP2	IBRD project “Montenegro Energy Efficiency Project”
COVID-19	Coronavirus disease-19 (SARS-CoV-2)	MFI	Microcredit financial institution
EAR	Employment Agency of Montenegro	MIDAS	Montenegro Institutional Development and Agriculture Strengthening program of the World Bank
EBRD	European Bank for Reconstruction and Development		
ECB	European Central Bank	MONEX,	
EDC	Export Development Canada	MNSE10	Montenegro Stock Exchange indices
EFTA	European Free Trade Association	MONSTAT	Statistical Office of Montenegro
EC	European Commission	MSCI	Morgan Stanley Capital Index
EIB	European Investment Bank	NEET	Not in Education, Employment, or Training
EPCG	Electric Power Company of Montenegro	NGFS	Network for Greening the Financial System
€STR	Euro Short-Term Rate	NGO	Nongovernmental organisation
EU	European Union	OPEC	Organization of the Petroleum Exporting Countries
EUREP	Eurosystem repo facility for central banks	PBG	Policy-Based Guarantee
EURIBOR	Euro interbank offered rate	PG Promo	KfW project “Construction of waste water treatment plants”
EUROSTAT	Statistical Office of the European Union	pp	percentage point
EXPO	International Registered Exhibitions	SDR	Special drawing rights
FAO	Food and Agriculture Organization	SE	stock exchange
FDI	Foreign Direct Investments	SITC	Standard International Trade Classification
FED	Federal Reserves	SOFR	Secured Overnight Financing Rate
GDP	Gross Domestic Product	S&P	Standard and Poor’s rating agency
GWh	Gigawatt hour	UN	United Nations
HICP	Harmonised index of consumer prices	UNWTO	UN World Tourism Organisation
HPP	Hydro power plant	USA	United States of America
IBRD	International bank for Reconstruction and Development	USD	United States Dollar
IDA	International Development Association	VAT	Value added tax
IDF	Investment and Development Fund of Montenegro	VIX	Volatility Index
IEA	International Energy Agency	WAEIR	Weighted average effective interest rate
IFAD	International Fund for Agricultural Development	WANIR	Weighted average nominal interest rates
IFRS	International Financial Reporting Standards	WEO	World Economic Outlook
IIP	International investment position		

CONTENTS

MACROECONOMIC ENVIRONMENT IN MONTENEGRO IN 2022	9
1. REAL SECTOR DEVELOPMENTS	13
1.1. Gross Domestic Product	15
1.2. Industries	19
1.3. Prices	31
1.4. Labour Market	40
2. MONETARY DEVELOPMENTS	45
2.1. Important developments in the banking sector	47
2.2. Banking interest rates	64
2.3. Microcredit financial institutions	67
2.4. Factoring companies	69
2.5. Leasing companies	70
2.6. Companies for the purchase of receivables	71
2.7. Investment and Development Fund	71
3. TREASURY BILLS ISSUE	73
4. CAPITAL MARKET	77
5. FISCAL DEVELOPMENTS	83
5.1. Montenegro's public finances	85
5.2. Budget of Montenegro	88
5.3. Local Self-Government	92
5.4. State funds	94
6. PUBLIC DEBT	97
6.1. Government debt	100
6.2. Local self-government debt	104
6.3. Issued government guarantees	104
6.4. Debt repayment	105
7. EXTERNAL SECTOR	107
7.1. Balance of payments	110
7.2. External debt	122
7.3. International investment position	125
8. REAL ESTATE MARKET ANALYSIS	129
HEDONIC INDEX OF REAL ESTATES	131
9. INTERNATIONAL ECONOMY	137
9.1. Global economic and financial trends	139
9.2. Euro area	143
9.3. Region	145
10. IMPORTANT EVENTS	149
11. ANNEXES	157

REVIEW OF MACROECONOMIC DEVELOPMENTS

	2021	2022	%
REAL SECTOR DEVELOPMENTS			
GDP (in current prices in EUR million) ¹	4,955.12	5,796.76	
Industrial output (compared to the same period the year before) ²	4.9	-3.3	
Production of forest assortments in state forests (compared to the same period the year before) ²	-48.5	78.3	
Construction (compared to the same period the year before-measured by effective working hours) ²	0.7	-2.9	
Employment			
Number of employed people (December)	211,302	227,151	
Number of unemployed people (December)	57,386	46,596	
Inflation rate			
Consumer prices, annual rate (December)	4.6	17.2	
Average salary without taxes and contributions (average salary for period) ²	532	712	33.83
MONETARY DEVELOPMENTS (EUR million)³			
Total deposits	4,201.24	5,224.32	24.35
Nonfinancial sector deposits	1,199.77	1,766.65	47.25
Household deposits	1,350.87	1,701.37	25.95
General Government deposits	276.76	309.09	11.68
Central Government	205.01	198.93	-2.97
Local Government	67.23	104.39	55.26
Social security funds	4.51	5.76	27.68
Financial sector deposits	52.29	57.72	10.37
Deposits - other	1,321.55	1,389.50	5.14
Total loans	3,360.30	3,660.12	8.92
Loans to nonfinancial sector	1,157.46	1,261.58	8.99
Loans to households	1,431.51	1,555.08	8.63
Loans to General Government	263.15	256.39	-2.57
Central Government	227.67	223.46	-1.85
Local Government	35.48	32.94	-7.17
Social security funds	-	-	0.00
Loans to financial sector	19.95	22.16	11.10
Other loans	488.23	564.91	15.70
TREASURY BILLS ISSUE			
Average interest rates on 91-day T-bills, last recorded			
Average interest rates on 182-day T-bills, last recorded	0.90%	3.97%	
CAPITAL MARKET			
Turnover in stock exchanges (EUR million) ²			
Montenegro stock exchange	46.47	78.18	68.25
Stock exchange indices			
MNSE10	764.72	1,009.24	31.98
MONEX	9,867.37	14,141.35	43.31
FISCAL DEVELOPMENTS (EUR million)			
Current revenues ⁴	2,194.0	2,299.2	4.80
Expenditures ⁴	2,287.5	2,598.7	13.60
Surplus/deficit ⁴	-93.5	-299.4	220.33
Foreign government debt (in EUR million) ⁵	3,688.48	3,557.56	-3.55
Domestic government debt (in EUR million) ⁵	401.54	468.77	16.74
Debt of the local governments (in EUR million) ⁵	72.8	75.9	4.30
EXTERNAL DEVELOPMENTS²			
Current account balance (EUR million) ²	-455.92	-765.92	
Trade balance	-1,915.20	-2,670.10	
Balance of services	956.12	1,317.23	
% of trade deficit/other balances coverage	76.19	71.31	
Current account balance in % of GDP	-9.20	-13.21	

¹ Source: 2021 MONSTAT. 2022 MONSTAT preliminary data, based on quarterly GDP estimates.

² Data for period I-XII 2021 and I-XII 2022.

³ As of June 2018, monetary statistics data are compiled in accordance with the new methodology (http://www.cbcbg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_publikacije/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 IN 2022

Montenegro's economy recorded the year-over-year GDP growth 6.1% in 2022.¹ Quarterly estimates based on MONSTAT data indicate economic activity growth in all four quarters of the year, with 7.1% being recorded in Q1, 12.7% in Q2, 3.2% in Q3, and 3.3% in Q4. This was mainly owing to an increase in private consumption as well as a strong recovery of exports of goods and services. Available statistical indicators for 2022 indicate significant increase in tourist arrivals and overnight stays, most types of traffic, trade, as well as activities in forestry. On the other hand, industrial production and construction recorded output declines.

The annual CPI inflation stood at 17.2% in December 2022, while the average rate of consumer prices was 13.0% higher than in the previous year. This growth is primarily the result of an increase in the prices of energy and food products as well as of raw materials on international markets, due to the continuation of geopolitical tensions and conflicts in Ukraine, but also the growth of domestic demand. The prices increase was partly mitigated by a temporary reduction of excise duties on oil derivatives in May 2022 (the duration of which was additionally extended in September), as well as by the administrative control of the staple food prices, i.e. the reduction of key tax rates on basic food products and on production inputs.

MONSTAT data also indicate that Montenegro was visited by 2.18 million tourists that recorded 12.43 million overnight stays, which is the year-on-year growth of 30.71% and 25.89%, respectively. However, compared to the record year 2019, arrivals and overnights were 17.44% and 14.02% lower, respectively. In traffic, the annual growth of most types of transport was achieved, with the largest increase in passenger transport being achieved in road transport (55.70%) and the largest growth in the transport of goods in railway transport (42.74%), while a decrease of 10.09% was recorded in cargo transport at airports. Annual growth was also achieved in forestry, which is confirmed by the data on the growth of production of forest assortments in state forests by 78.3% and on the increase of total income from all types of forest use of 63.17%. The increase in demand during 2022 also reflected on the annual growth in internal trade of 13.4%, expressed in constant prices (29.5% in current prices).

Negative economic trends were present in industrial production, recorded the year-over-year decline of 3.3% in the reporting years, which is mostly the result of a 10.8% decrease in production in the electricity, gas and steam supply sector, as the result of unfavourable hydrological situation.

¹ Preliminary data based on quarterly GDP assessments. Final data is to be published in September 2023.

Output increases of 0.3% and 8.9% was recorded in manufacturing industry and the mining and quarrying sector, respectively. MONSTAT's preliminary data indicate that construction recorded the year-over-year decline in the value of executed construction works and effective working hours of 4.44% and 2.89%, respectively.

Montenegro's current account deficit amounted to 765.92 million euros, which represents the annual growth of 67.99%, primarily as a result of an increase in the deficit on the goods account due to a significant increase in import prices as well as domestic demand. This deficit was mitigated by surpluses on the service accounts and the primary and secondary income accounts. The financial account recorded an increase in net inflow of capital as a result of FDI inflow, while portfolio and other investments accounts recorded net outflows as opposed to a net inflow to the latter account a year ago.

As for foreign trade deficit, it reached 2,670.10 million euros in 2022, being 39.42% higher than in the previous year due to higher value of visible imports as compared to visible exports. The total visible export amounted to 763.46 million euros and it was 237.67 million or 45.20% higher (due to a significant increase in the value of exports of electricity and non-ferrous metals), while the import of goods amounted to 3,433.56 million euros and it was 992.58 million euros or 40.66% higher on the annual basis. Rising prices of oil and oil derivatives, electricity, food and metals on the international market, as well as the relatively high growth of economic activities in Montenegro in 2022, led to an increase in the volume of international visible trade of 41.47%.

The services account recorded a surplus of 1,317.23 million euros or 361.10 million euros more year-over-year, primarily owing to growth in tourism industry and transport services. Total revenues from services stood at 2,289.09 million euros (a 43.33% increase) while expenditure for services reached 971.86 million euros (a 51.63% growth). Estimated revenues from travel-tourism amounted to 1,054.75 million euros, which is 296.92 million euros more than in the comparative period (a growth of 39.18%), i.e. 95.99% of the revenues achieved in the record year 2019 (which is partly the result of rising inflation, especially during 2022). Revenue from transport services amounted to 727.90 million euros and recorded a growth of 83.94%. The primary and secondary income accounts recorded respective surpluses of 118.39 million euros and 468.56 million euros, which is the year-over-year increase of 15.71% and 16.90%, respectively.

Net FDI inflow reached 782.64 million euros in 2022, which is 34.56% more than in the previous year. Total FDI inflow stood at 1,151.42 million euros, with equity investments amounting to 667.42 million euros (35.28% increase), and the inflow in the form of intercompany debt that added up to 401.54 million euros (24.15% more y-o-y). The structure of equity investments in companies and banks amounted to 219.40 million euros (a 2.01% increase), whereas investments in real estate reached 448.02 million euros (a 60.99% growth). Total FDI outflow amounted to 368.79 million euros or 6.45% more than in 2021.

Preliminary data indicates that the total foreign debt of Montenegro amounted to 9,421.25 million euros at the end of 2022, which is 80.07 million euros or 0.84% less compared to the end of the previous year, mainly as a result of the reduction of the external debt of the public sector. The share of total external debt in GDP was 162.53%, which represents a decrease of 29.22 pp year-over-year. In the structure of Montenegro's external debt, the public sector debt accounted for 38.88% and the private debt accounted for 61.12%.

The labour market statistics also supports data on Montenegro's economic growth in 2022. MONSTAT data reveal that the average number of employees averaged at 223,744, being 18.41% higher than last year. The recorded increase is partly of a statistical nature, due to more up-to-date registration of previously employed persons in the Tax and Customs Administration records after the start of the implementation of the "Europe Now!" economic program. Employment growth was recorded in all sectors, with the highest being recorded in the administrative and ancillary service sector (46.68%) and the accommodation and food service activities sector (41.72%), and the lowest in the state administration sector and defence, compulsory social security (4.62%).

At the end of 2022, there were 46,596 unemployed persons on the records of the Employment Agency of Montenegro, which is 18.80% less than at the end of 2021. The same source shows that the registered unemployment rate amounted 20.08% and it was 4.65 pp lower year-over-year. The number of registered unemployed persons averaged at 48,428 or 11.24% less if compared to 2021. A part of these changes is of statistical nature due to the deletion of a certain number of unemployed women, in accordance with the Law on Compensation of Former Users of Benefits Based on the Birth of Three or More Children.

MONSTAT data indicate that the average gross earnings amounted to 883 euros in the reporting year, while the average earnings without taxes and contributions stood at 712 euros, with both showing the year-on-year increase of 11.35% and 33.83%, respectively. We also saw a notable increase in earnings, mainly as a result of the implementation of the "Europe Now!" program, which increased the minimum net wage as of 1 January 2022 from 250 to 450 euros and abolished the obligation of mandatory health insurance contributions.

The government budget recorded an increase in the collection of budget revenues but also in consolidated expenditures compared to the previous year, while compared to the budget plan, according to the budget revision adopted in September 2022, revenues recorded an increase and expenditures decreased.

The growth in revenue collection is partly the result of improved tax discipline, but primarily of an increase of economic activities, as well as the growth of imports, i.e. the increase of consumption due to the growth of earnings and inflation. Increased expenses for transfers based on rights from the field of social protection and pension and disability insurance led to the growth of consolidated budget expenditures on the annual level, while financing from reserves had the greatest impact on the reduction of the realized expenditures compared to the expenditures planned by the budget revision for 2022.

Based on realized revenues and expenditures, the cash deficit of the budget increased by 160.70 million euros year-over-year and it was estimated at 260.22 million euros or 4.49% of GDP.

The Ministry of Finance data indicate that the gross public debt amounted to 4,102.22 million euros or 70.77% of GDP at end-2022, being 1.45% year-on-year and this was owing to the regular settlement of credit obligations. Of the total amount of gross government debt, 468.77 million euros or 8.09% of GDP referred to the national debt, 3,557.56 million euros or 61.37% referred to the external debt, and the debt of local self-governments accounted for a mere 75.89 million euros or 1.31%. Net public debt totalled 3,990.47 million euros or 68.84% of GDP. Despite the reduction, the level of government and public debt, especially their external segment, still represents one of the biggest challenges for the future fiscal policy.

In order to mitigate the consequences of rising prices, the Government of Montenegro adopted numerous anti-inflationary measures as a part of the support package for households and the economy. The measures related to the reduction of key tax rates on basic food products and production inputs and the price caps on products of importance for the citizens' life and health.

Within its competences and in accordance with the limited selection of available monetary instruments, the Central Bank of Montenegro continued to contribute to mitigating the impact of the pandemic and disturbances on the international financial and commodity markets on citizens and the economy. Additionally, in order to specify the period of application of the adopted measures, the Central Bank adopted a Decision on interim measures to mitigate negative impact of the communicable disease COVID-19 epidemic and the situation in Ukraine on the financial system. The adoption of the Decision on macroprudential measures related to retail loans granted by credit institutions has provided a support for sustainable retail lending and the preservation of the financial system stability in a short term.

In addition to these, the Central Bank made other regular and extraordinary efforts to preserve monetary and financial stability, as well as to maintain confidence in the banking system, which contributed to high indicators of liquidity and capitalization, and the growth of deposits and loans, which reached their historic levels. At end-2022, deposits with banks amounted to 1,988.16 million euros, which is 41.53% more year-on-year, while deposits rose 24.35%, reaching the level of 5,224.32 million euros. Total banking loans increased by 8.92% and amounted to 3,660.12 million euros, and the aggregate solvency ratio of the banking system also increased to 19.30% (18.50% at the end of 2021). Non-performing loans amounted to 209.09 million euros or 5.71% of total loans (decrease in share of 0.46 pp on the annual level). The banking sector reported a positive financial result in 2022 in the amount of 83.31 million euros.

The multi-year trend of decreasing active interest rates was stopped in the second half of 2022, primarily as a reflection of developments in international financial markets. The weighted average effective interest rate on total loans granted amounted to 5.92%, recording the year-on-year increase of 0.26 pp, while the weighted average deposit effective interest rate stood at 0.26%, rising by 0.08 pp over the same period.

Most of the providers of other financial services, who are subject to the regulation and supervision by the Central Bank, recorded a decrease in their assets and liabilities and net annual profit in the reporting year. Total assets and liabilities of MFIs decreased by 6.71%, to 74.76 million euros, and their financial result dropped by 11.44% (to 3.83 million euros), while assets and liabilities of the Investment and Development Fund decreased by 4.82% (to 441.71 million euros) and its financial result dropped by 4.9% (to 1.94 million euros). The only operating leasing company recorded a 20.42% drop in total assets and liabilities (to 32.24 million), but achieved a positive financial result in the amount of 255,000 euros. Only factoring companies recorded an increase in their assets and liabilities of 69.94% (to 7.82 million euros), as well as an increase in net profit of 193.75% (to 282,000 euros).